

# Public Utilities

*FORTNIGHTLY*



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August 19, 1943

WHO'LL GIVE ME A BID?

*By Herbert Corey*

« »

The Necessity of Living Off  
Each Other's Inventories

*By James H. Collins*

« »

The FCC and the "Public Interest"?

*By Larston D. Farrar*

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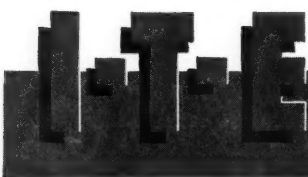
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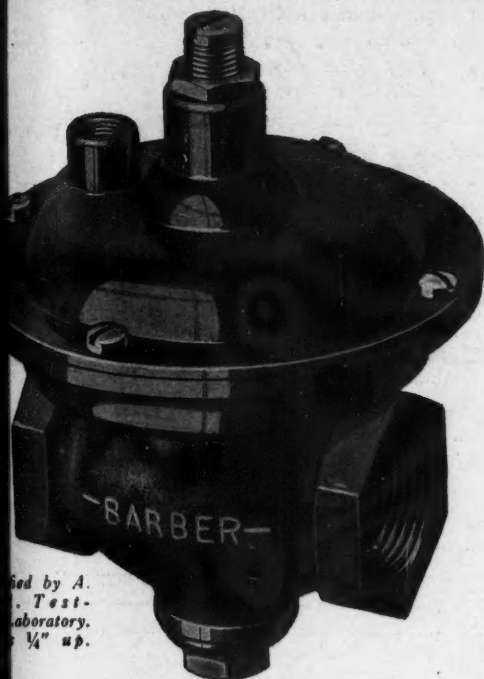
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# Public Utilities Fortnightly



VOLUME XXXII

August 19, 1943

NUMBER 4

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**Q** This magazine is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

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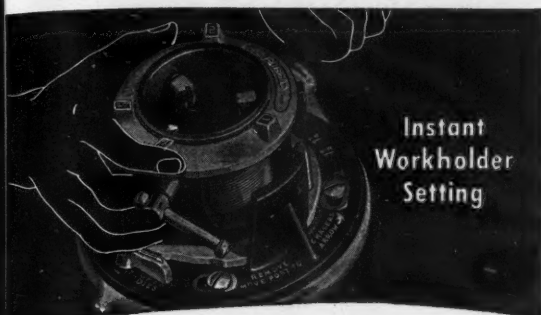
Publication Office .....CANDLER BUILDING, BALTIMORE, MD.  
 Executive, Editorial, and Advertising Offices .....MUNSEY BUILDING, WASHINGTON, D. C.

PUBLIC UTILITIES FORTNIGHTLY, a magazine dealing with the problems of utility regulation and allied topics, including also decisions of the regulatory commissions and courts, preprinted from *Public Utilities Reports, New Series*, such Reports being supported in part by those conducting public utility service, manufacturers, bankers, accountants, and other users. Entered as second-class matter April 29, 1915, under the Act of March 3, 1879. Entered at the Post Office at Baltimore, Md., Dec. 31, 1936; copyrighted, 1943, by Public Utilities Reports, Inc. Printed in U. S. A.

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ANNUAL SUBSCRIPTION, \$15.00

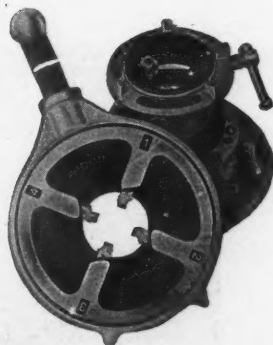
AUG. 19, 1943



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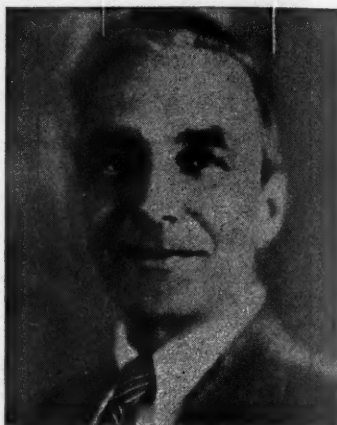


## Pages with the Editors

THE old joke about the three Chinamen cast away on a desert island who made fortunes doing each other's laundry is funny only because three characters were dealing with the same commodity or service. Nowadays, the curtailment in production of normal industrial and civilian supplies has made it absolutely necessary for various business enterprises to live off each other's inventories as much as they possibly can.

THE Office of War Utilities of the War Production Board has long had a policy of encouraging various utility companies to swap around the "excess" items in their inventories among other utility companies. This policy, at first voluntary, has now been made virtually mandatory. Any utility company which persists in retaining an inventory of materials or supplies in excess of limitations imposed by OWU orders would not only forfeit the right to further priority allowances, but would stand in imminent danger of having the Army or some other government agency step in and seize the excess supply.

BUT the "necessity" for living off each other's inventories (which is the title of the article by JAMES H. COLLINS, beginning on page 210



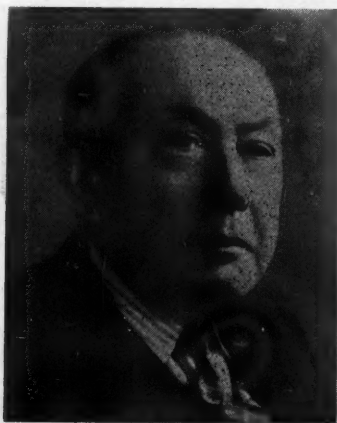
JAMES H. COLLINS

*War shortages are making intraindustrial "swapping" quite commonplace.*

(See Page 210)

of this issue) brings complications of its own. Pricing, listing, offers, and acceptances all produce little question marks along the way and occasionally serious headaches for both buyer and purchaser.

MR. COLLINS, author of this article on war-time exchange of inventory items, is a well-known author and business magazine editor, now resident in Hollywood. His writings have appeared in numerous publications.



HERBERT COREY

*Little Orphan Annie has come to our house to stay.*

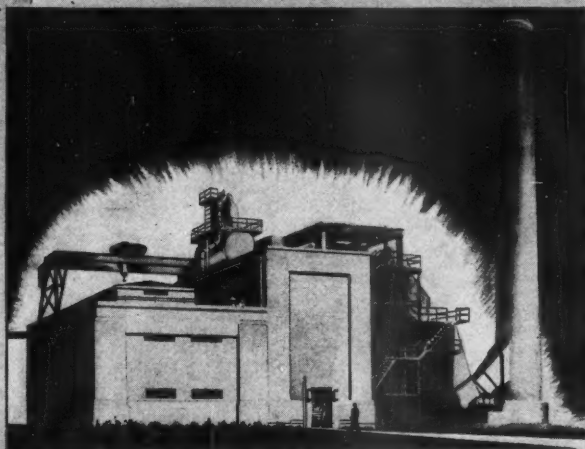
(See Page 201)

BY this time, most readers of this magazine are probably familiar with the more sensational developments which have taken place in the investigation of the Federal Communications Commission by the special committee of the House of Representatives, headed by Representative Cox of Georgia. It may be somewhat ironic, but it seems to us that the bitter complaint of the FCC about the "star chamber" character of the Cox committee investigation cannot help but recall the FCC's own investigation of the telephone industry just six years ago. To some it might also recall the long, eight years' investigation of the gas and electric utilities by the Federal Trade Commission.



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## Another power plant is dedicated!

The wheels of industry are driven chiefly by electrical energy, which speeds production, reduces costs, multiplies manpower. The new steam electric generating station shown above will add nearly 50,000 horsepower to drive the wheels of SOUTH TEXAS industry.

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Today's electric power demands were foreseen long before the United States entered the war.

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To provide dependable, low cost electric service to these industries and to the people of South Texas who maintain this Company's privilege and responsibility. To that end the Houston Lighting & Power Company dedicates—not alone the new power plant—but its manpower, resources and experience.

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THE FCC chairman and its counsel complain that the commission has been given a ragged deal with respect to an opportunity to present the FCC side of the case. Serious charges have been made against FCC, which the commission has had no chance to refute, cross-examine, or for that matter even examine in underlying detail. Exhibits proffered by the commission in its own defense have been denied admission—for the present at least—by Chairman Cox of the House committee.

TURNING back the pages of history six years, we see a similar complaint being registered by Counsel Hurd for the Bell system, when Commissioner Walker, then conducting the FCC investigation, refused to permit even the introduction of certain excerpts from a U. S. Supreme Court decision which tended to support arguments of the Bell system and to refute certain evidence produced by the FCC staff. If we turn our pages back still a few more years, we see similar complaints being registered before the Federal Trade Commission by Counsel Weadock, who objected that the FTC was proceeding on "*ex parte*" evidence, without opportunity for cross-examination, or affirmative defense.

YES, these complaints all have a very familiar ring, by this time, in the ears of veteran Washington observers. It's only a change in the cast which makes the case of the Cox-Fly feud a little different.

As a matter of fact, we recall in 1937 when Commissioner Walker ruled out the evidence proffered by the Bell system counsel, he made an interesting distinction between ordinary regulatory procedure and a special investigation such as the FCC was then conducting with respect to the telephone industry. The FCC, under such circumstances, Commissioner Walker pointed out, was simply doing a special job for Congress, by direction of a congressional resolution. This put the FCC investigation in about the same status as an investigation by a congressional committee, which means that the FCC was under no compulsion to let both sides produce evidence, cross-examine, etc. A congressional committee, which is merely collecting evidence for its own information (presumably as a basis for legislation), Walker pointed out, can call what witnesses it pleases, consider what evidence it pleases, and quit when it pleases. It is complete master of its own procedure.

WELL, that is just about what the Cox committee has been doing in its investigation of the FCC. And while we would not want to give as our own opinion any statement that Chairman Cox or his committee has been entirely fair with the FCC to date, nevertheless it does look as if the FCC were getting a good old-fashioned dose of its own medicine. As the Washington correspondent for the telephone journal, *Telephony*, recently pointed out, it "may be another case of somebody being able to 'dish it out but apparently they can't take it.'"

AUG. 19, 1943



LARSTON D. FARRAR

What is behind this Cox-Fly feud and the FCC investigation?

(See Page 216)

IN this issue LARSTON D. FARRAR, associate editor of *Nation's Business*, gives us a critical analysis of the Cox committee proceedings to the end of the July hearings. He also gives us the background of the controversy over Chairman Cox's own qualifications to conduct a special committee investigation of the FCC.

OUR opening article, entitled "Who'll Give Me a Bid?" is the product of the well-known Washington author and newspaper correspondent, HERBERT COREY, whose articles frequently appear in this magazine.

AMONG the important decisions preprinted from *Public Utilities Reports* in the back of this number, may be found the following:

THE present fair value of gas company property was determined by the Missouri commission, which discussed the use of trenching machines in the construction of a gas distribution system in relation to a reproduction cost estimate. (See page 65.)

THE Montana commission disclaimed jurisdiction to compel a town to furnish water service to dwellings beyond the corporate limits. (See page 123.)

THE next number of this magazine will be out September 2nd.

*The Editors*

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**SOOT BLOWERS**

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# Remarkable Remarks

*"There never was in the world two opinions alike."*

—MONTAIGNE



HERBERT HOOVER  
*Former President of the United States.*

"The American people respond better to a statement of the need under the word 'please' and 'serve' than they do under the word 'verboden.'"

ALFRED M. LANDON  
*Former governor of Kansas.*

"... the very issues which our boys are fighting for abroad, the four freedoms, will have to be fought for at the ballot box on the home front in 1944."

HAROLD ICKES  
*Secretary of the Interior.*

"I believe that an old-line government agency must be converted to serve the needs of victory, just as much as any other public or private institution or business."

JOHN W. BRICKER  
*Governor of Ohio.*

"In my judgment, the public interest does not and will not under our constitutional system require government competition with private business, using the taxpayer's money to destroy his own opportunities."

EDITORIAL STATEMENT  
*The New York Times.*

"In the case of air commerce, the economics of which are interstate and international, there can be no justification for differing local requirements. And the special value of aviation, speed, and mobility would be impaired, if not destroyed, were varying state regulations ever to arise."

EMIL SCHRAM  
*President, New York Stock Exchange.*

"Pressure groups seldom are spontaneous. Usually they are conceived, nourished, and perpetuated to exploit the many for the benefit of the few. They are iniquitous because they undermine national unity, breed class consciousness, prostitute sincerity in politics, and propagate the idea that one segment of society can profit by gaining the upper hand."

EDWARD MARTIN  
*Governor of Pennsylvania.*

"Governments have only the money they take from the people. Like men, governments have only a limited amount of credit. After a certain sum is spent, a man's credit is gone. This fact applies equally to governments. No government can go on indefinitely spending the money of the people. If this happens, finally we will all be working for the government and our free enterprise, or capitalistic system, will be lost and our standard of living and our standard of culture will be lowered."

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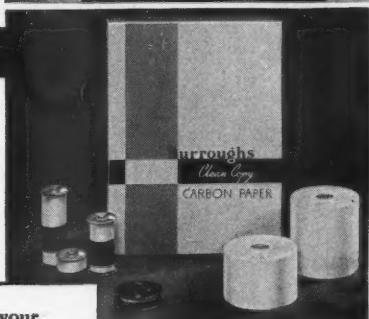
### KEEP THEM IN GOOD CONDITION

Right now you can arrange for regular, periodic inspection, lubrication and adjustment of your Burroughs machines, to safeguard your office from emergency repairs and the delays they entail. A standard Burroughs Service Agreement provides this efficient protection at a moderate, predetermined cost. All work is guaranteed by Burroughs.



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## REMARKABLE REMARKS—(Continued)

JOSEPH W. MARTIN, JR.  
U. S. Representative from  
Massachusetts.

"The small businessman has become the 'orphan child' of our government. His relief up to date has been chiefly glowing promises and the spending of propaganda money to make him believe something was to be done in his behalf. If small business perishes it will be a national disaster . . ."

ERIC A. JOHNSTON  
President, United States Chamber  
of Commerce.

"The conclusion is inescapable that tomorrow's world will be an international world. America is destined to play a leading rôle in this international world. In reaction against the war, and to avoid foreign entanglements, many among us would like to encase the country in a hard shell of supernationalism. Experience shows only too clearly that reversion to such a policy would only lead to a war for another generation of Americans. We cannot avoid our international responsibilities even if we would."

THOMAS E. DEWEY  
Governor of New York.

"The Federal government now has a civilian staff of more than two and a half million people—two and a half times the number needed in the last war. To put it another way, this is a staff of adults almost as large as the whole population of the Kingdom of Norway. Aside from the countless numbers in routine work, this great number includes many of the ablest scientists, scholars, business, and professional leaders of the nation. At home they were great producers, great leaders. Lost in the catacombs of Washington, their capacity seems to be so sterilized and counterbalanced that their usefulness is lost to their state and also to their country."

EDITORIAL STATEMENT  
*The Wall Street Journal.*

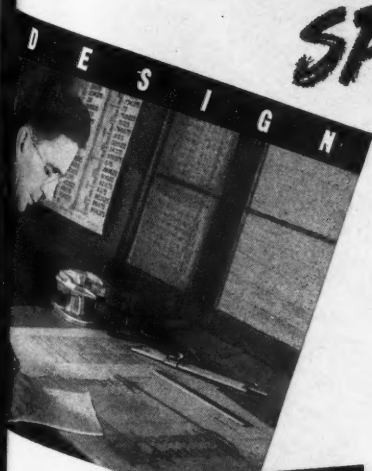
"Whatever may be said of the performance of industry in general in the country's war effort it seems that in the matter of power and transportation—two great fundamentals—the country is being very well served. In the matter of power each year sees more current provided for less money per unit of product. Yet only a few years ago a governor of a great state publicly charged that the domestic consumer was being overcharged \$500,000,000 per annum. Last year the total revenue from this source was no more than \$815,000,000 or so! Curious phenomenon, that antiutility war of the last decade! Will it be resumed after we get through the present job?"

EDITORIAL STATEMENT  
*Oil City Derrick.*

"If the Republican party should offer the American people an able, dependable, and forceful candidate next year they will change horses while crossing the stream. They will do this in spite of the fact that the organized labor vote of some 8,000,000 and the 3,000,000 persons on the Federal payroll are likely to support Roosevelt. . . . So long as Mr. Roosevelt is President the country will stand behind him in the conduct of the war. Indeed, the country would stand behind any President in any war emergency. . . . But they have had enough of the New Deal."

# R&IE *the*

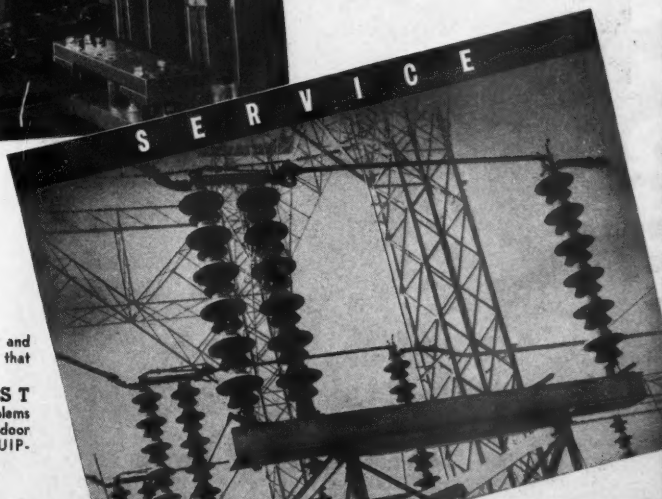
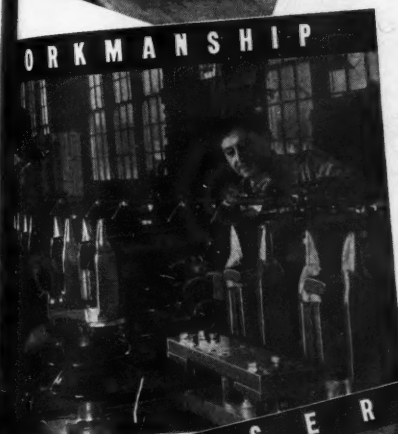
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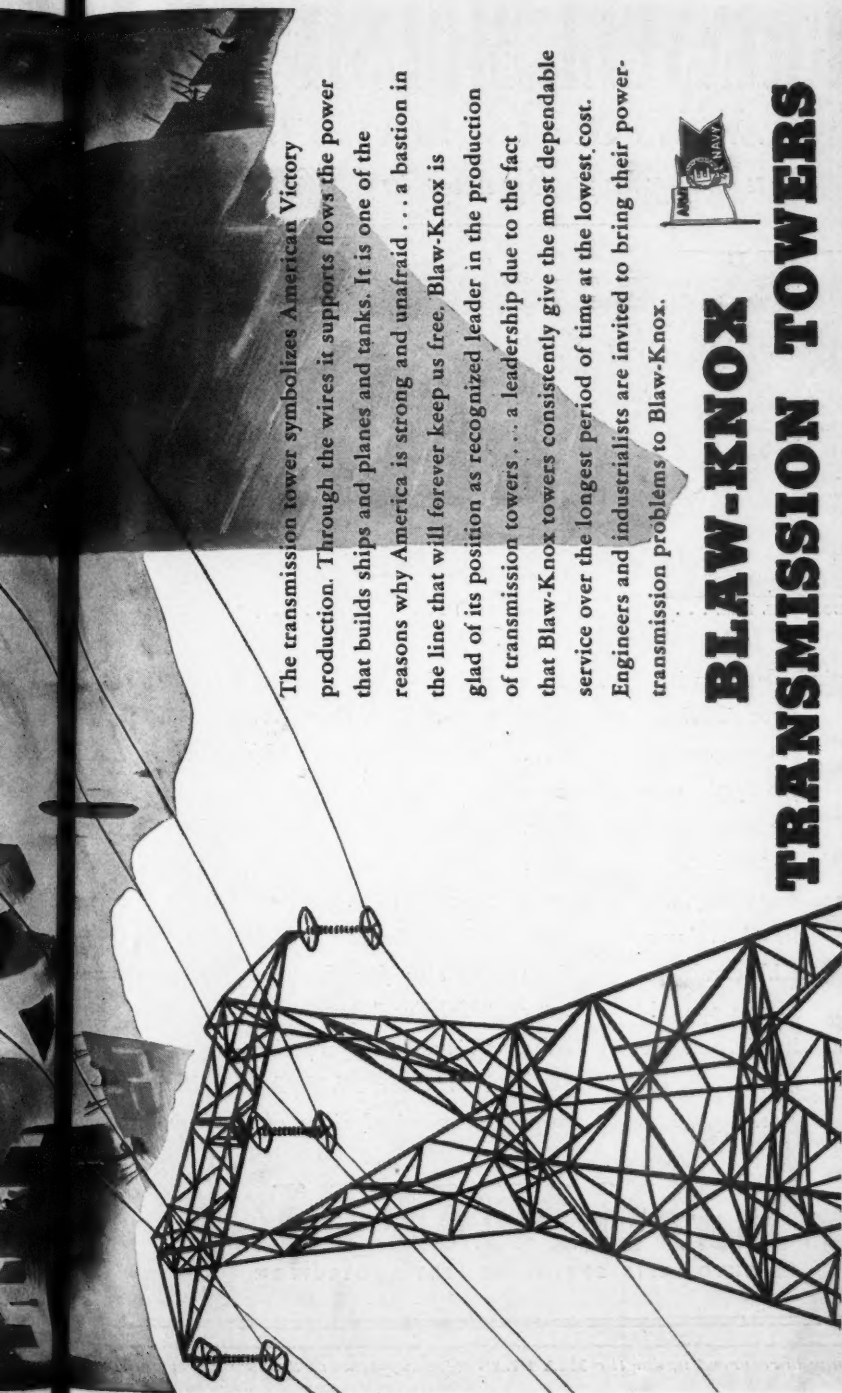
METAL CUBICLE

TESTING DEVICES



# BASTION of the "Liberty Line"





The transmission tower symbolizes American Victory production. Through the wires it supports flows the power that builds ships and planes and tanks. It is one of the reasons why America is strong and unafraid . . . a bastion in the line that will forever keep us free. Blaw-Knox is glad of its position as recognized leader in the production of transmission towers . . . a leadership due to the fact that Blaw-Knox towers consistently give the most dependable service over the longest period of time at the lowest cost. Engineers and industrialists are invited to bring their power-transmission problems to Blaw-Knox.



# BLAW-KNOX TRANSMISSION TOWERS

BLAW-KNOX DIVISION OF BLAW-KNOX COMPANY 2013 FARMERS BANK BUILDING, PITTSBURGH, PA.  
NEW YORK • CHICAGO • PHILADELPHIA • BIRMINGHAM

# — GRINNELL MULSIFYRE —

*Snuffs Out Oil Fires with  
Mulsifying Spray of Water!*



A STUBBORN OIL FIRE . . .

WHAT MULSIFYRE SPRAY  
LOOKS LIKE . . .

FIRE OUT, WITHIN 5 SECONDS!

In generating plants, switch yards, substations . . . wherever oil-filled apparatus or lubricating systems are employed . . . Grinnell Mulsifyre Systems now give permanent, positive protection against oil fires. The instant the system is turned on, either manually or automatically, a driving spray of water strikes the oil . . . churns the surface into a non-flammable emulsion . . . smothers flames within a few seconds! The water soon separates itself from the oil as the emulsion breaks down.

This simple, positive method of extin-

guishing oil fires was developed and patented by Grinnell . . . and is incorporated in Mulsifyre Systems by means of a special discharge nozzle, the Grinnell Projector. Since its introduction, "Mulsifyre" has been accepted internationally by utilities and industries . . . and by the U. S. Navy for bilge-protection of oil-burning ships.

*Write for detailed information on  
"Mulsifyre" Systems and their applications.  
Grinnell Company, Inc., Executive Offices,  
Providence, Rhode Island. Branch offices  
in principal cities of U. S. and Canada.*

## GRINNELL

AUTOMATIC SPRINKLER FIRE PROTECTION

# WHAT'S THE DIFFERENCE BETWEEN TRANSITE CONDUIT and TRANSITE KORDUCT?



## TRANSITE KORDUCT



Is ideal for locations where ducts must be "concreted in." It is identical with Transite Conduit, except that it is thinner walled and lower priced. It saves at installation because...

Its long lengths cut down on joints, reduce the number of spacers required. And its high rate of heat dissipation cuts cable operating temperatures... increases system capacity.

## TRANSITE CONDUIT

Is for use underground or on exposed locations without a concrete casing. It can't rust or rot... resists weather and corrosion... remains unaffected by smoke or ordinary fumes...



Its uniform strength and durability means that it holds its true form under earth loads and traffic pressure. And it is low in cost... more economical in service than other materials of comparable strength and corrosion-resistance.

### And here are characteristics that Transite Conduit and Transite Korduct have in common...

**1. Incombustible...** Made of asbestos and cement, Transite Ducts won't contribute to the formation of dangerous smoke, gases or fumes. When burnouts occur, they give maximum protection to adjacent cables and equipment.

**2. Immune to Electrolysis...** Transite Ducts are entirely inorganic, non-metallic, cannot be affected by electrolysis.

**3. Smooth bore...** Cable pulls and replacements are easier... damage to sheathings is minimized.

**4. Easily installed...** Their combination of light weight, long lengths and quickly assembled couplings speeds up work.

For details and specifications, write for Data Book DS-410. Address Johns-Manville, 22 East 40th Street, New York.



Johns-Manville

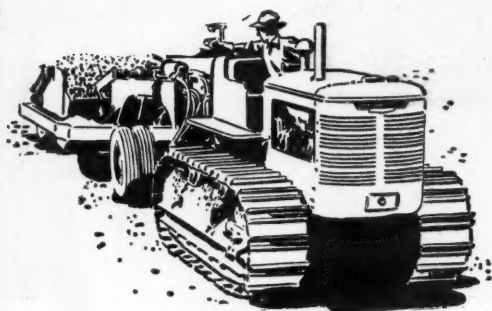
# TRANSITE DUCTS

TRANSITE KORDUCT—  
for installation in concrete

TRANSITE CONDUIT—  
for exposed work and installation underground without a concrete encasement

# Equipment Lessons LEARNED IN WAR

## Will Help You When WAR IS DONE



TOTAL WAR has brought a liberal education in machinery maintenance to all branches of industry—an "accelerated" course, so to speak. Lessons learned in war have taught both equipment users and dealers how to make machinery last longer and work harder. Users and dealers have acquired wider knowledge of the *use and maintenance* of equipment. They have been forced, through shortages and restrictions, to perform the "impossible" in keeping equipment operating. *They've fixed it up, made it work, made it last.*

The experience gained in wartime will benefit industry everywhere when war is done.

When war is done . . . then International Industrial Power dealers will have new TracTractors, Wheel Tractors and Power Units for you again. Dealers will back up sales of new equipment with a vast store of machinery "know-how" that will help solve your postwar power problems.

**INTERNATIONAL HARVESTER COMPANY**

180 North Michigan Avenue

Chicago, Illinois



POWER FOR VICTORY  
**INTERNATIONAL HARVESTER**

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# How TO SAVE MANPOWER YET SPEED TRANSMISSION LINE ERECTION



**T**hroughout the country our trained men are ready to help you meet today's unprecedented demand for power. In the erection or maintenance of transmission lines . . . regardless of distance or terrain . . . Hoosier experience and special equipment guarantees efficient and economical service.

**ERECTION and MAINTENANCE OF TRANSMISSION LINES**



**COLUMBUS, OHIO**

**NEW YORK - CHICAGO**

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# SAVE 50% IN TIME AND MONEY WITH

## THE ONE-STEP METHOD



## OF BILL ANALYSIS

**W**HAT effect is the war production program having on your bill distribution? Analysis of customer usage data will provide the answer to this important question. In addition to a knowledge of the existing situation, certain trends may be disclosed, a knowledge of which may be of considerable importance to you under circumstances where the picture is rapidly changing.

*The One Step Method of Bill Analysis* is ideally suited to meet the needs of this problem. It does away with the necessity for temporarily acquiring, training and supervising a large clerical force. Our experienced staff plus our specially designed Bill Frequency Analyzer machines can turn out the job in a few days and at the cost of only a small fraction of a cent per item.

We will be glad to tell you more in detail about this accurate, rapid and economical method for obtaining a picture of your customer usage situation. Write for a copy of the booklet "*The One Step Method of Bill Analysis*."

### Recording & Statistical Corporation

Utilities Division

102 Maiden Lane, New York, N. Y.

Boston

Chicago

Detroit

Montreal

Toronto

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# STEAM FOR INDUSTRY'S WAR JOB

Freedom as we have always known it is worth any effort needed to preserve it, and, for that reason, America is today defending with the combined resources of the nation our right to continue living in our established pattern. Industry's part of the war job is its vast production of ships, tanks, guns, and other kinds of fighting machines and materials.

And in the background of this visible and more dramatic production operate the public utilities, supplying unrationed power for both war and civilian needs at a rate never before attained.

Since B&W Boilers are supplying the steam in a large proportion of these pub-

The Army-Navy "E" with two stars and Maritime Commission Award flags are floated proudly at the Babcock Works.

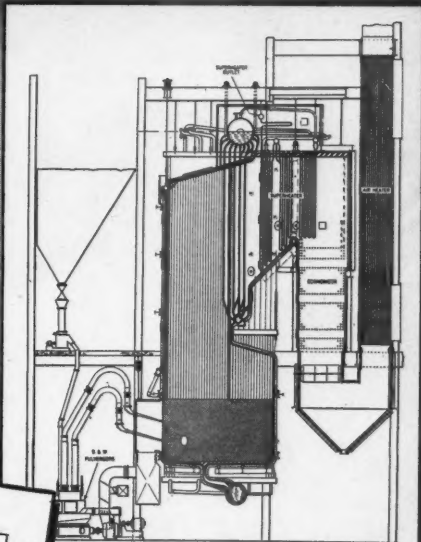
## BABCOCK

# B & W

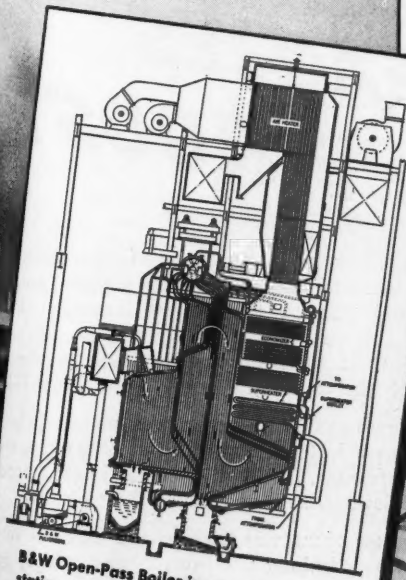
## & WILCOX

lic utility and industrial power plants, and for propelling naval and cargo ships, B&W is playing a substantial part in this great war effort. B&W engineering and production skill have built into its boilers the stamina to endure today's gruelling drive.

With today's accelerated experience yielding more complete answers to such problems as behavior of metals at high temperatures, action of fuels in slag-tap and dry-ash furnaces, circulation in high-capacity high-pressure boilers, separation of steam from water in boiler steam drums, and other related problems, the boilers of tomorrow should be even better able to serve industry.



**B&W Radiant Boiler in an eastern central station—Capacity 400,000 lb. steam per hr.**



**B&W Open-Pass Boiler in an eastern central station—Capacity 350,000 lb. steam per hr.**

**THE BABCOCK & WILCOX COMPANY**  
85 LIBERTY STREET NEW YORK 6, N. Y.

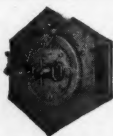
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# FIGHTING EAGLES RULE THE ROOST



IN PLANTS OF ALL TYPES  
**TODD BURNERS**  
ARE WORKING FOR VICTORY

Wherever trouble-free, dependable combustion of liquid and gaseous fuels is a necessity . . . on land or sea . . . Todd Burners are delivering unsurpassed performance in the production of heat and power.



TODD BURNERS ★ ★ ON THE FIRING LINE OF AMERICA'S WAR PRODUCTION FRONT

Suddenly, a pack of sleek, hungry hunters hurtle out of the sun and pounce on their favorite prey—the Luftwaffe. They're the newest American fighter planes. Piloted by the best fighters in the world they're as fast as lightning and as deadly as cobras . . . they hit like thunderbolts and fight like wildcats.

Such planes are the result of the miracles worked by American industry. They are now going out to every fighting front . . . a vivid testimonial to the production achievement that has made them possible.

The fighter plane was perhaps the toughest nut to crack. But all along the line . . . tanks, ships, guns, bombers . . . there were knotty problems that were straightened out, overcome, because of the skill and the will of American industry.

**TODD SHIPYARDS CORPORATION**  
**TODD COMBUSTION DIVISION**  
601 West 26th Street, New York City

NEW YORK

MOBILE

NEW ORLEANS

SAINT LOUIS

SEATTLE

BUENOS AIRES

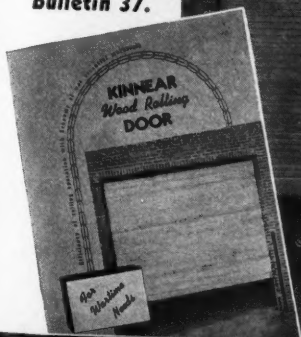
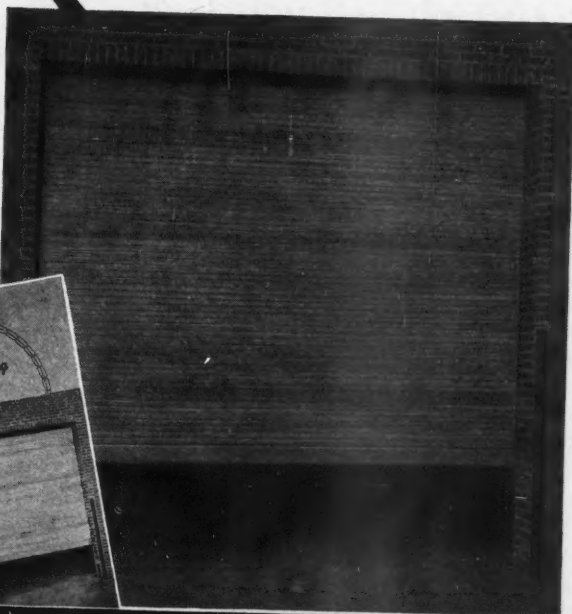
LONDON

*for*

# wartime duplication of steel rolling door efficiency **KINNEAR** WOOD ROLLING DOORS

Smooth, quick, easy operation . . . a rugged interlap-  
ping-slat curtain that coils compactly out of the way  
and out of reach of damage . . . maximum savings  
in floor, wall and ceiling space . . . full protection  
against wind and weather . . . choice of motor or  
manual control . . . neat, modern appearance! The  
Kinnear WOOD Rolling Door duplicates these  
famous advantages of the Kinnear Steel-Roll-  
ing Door with *maximum savings in war-  
vital steel!* Any size, for new construction or  
replacements. The Kinnear Manufacturing  
Co., 2060-80 Fields Ave., Columbus, Ohio.

Doors that  
**SAVE  
STEEL**  
for  
**WAR  
NEEDS**  
Write today,  
for  
bulletin 37.



**SAVING WAYS  
IN DOORWAYS**

# **KINNEAR** ROLLING DOORS

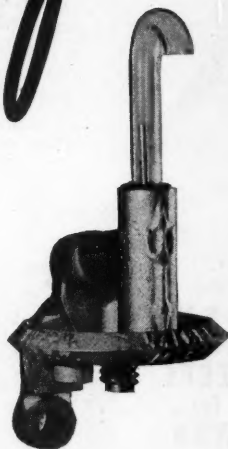
# Orifices vs. g.p.m. IN TESTING WATER METERS



**W**ITH a 1/16" stream (a 1/16" orifice in a thin plate) at 60 lbs. per square inch, the smallest rate of flow will be about half a gallon a minute: and depending on the edges of the hole, it might run as high as 9/10 g.p.m.

**E**VEN with only 40 lbs. pressure the minimum would be .44 g.p.m., a flow which is still nearly double the desired low flow test rate for the 5/8" meter.

62



**H**OWEVER, with a good rate of flow indicator it is possible to obtain easily and with accuracy, at any pressure, the desired test rate of 1/4 g.p.m. for the 5/8" meter. This is next to impossible with a fixed orifice.

**T**HE Neptune Rate of Flow Indicator is a simple, positive, and inexpensive device which may be applied to any test bench. Your Neptune Representative will be glad to arrange for a demonstration.

**NEPTUNE METER COMPANY • 50 West 50th Street • New York 20, N. Y.**

Branch Offices in CHICAGO, SAN FRANCISCO, LOS ANGELES, PORTLAND, ORE., DENVER, DALLAS, KANSAS CITY, LOUISVILLE, ATLANTA, BOSTON.

Neptune Meters, Ltd., Long Branch, Ont., Canada

# Ric-wil

FURNISHED MORE THAN 25,000 FT. OF  
 PREFABRICATED INSULATED PIPE CONDUIT



## For Terrace Village Housing Unit No. 2 in Pittsburgh

*Fuel savings of 15% or better are made possible in this mammoth project by a central heating system. Ric-wil, pre-fabricated pipe units provide the insulation and protection for the entire underground distribution system.*

A total of 83 buildings, comprising 1851 living suites, are supplied with heat and hot water from a central plant, through an underground distribution system containing over 25,000 lineal feet of Ric-wil pre-sealed Insulated Pipe Units. High-pressure steam from the plant is piped through Ric-wil steam conduit to six scattered stations where hot water is generated and circulated through Ric-wil conduit to all the buildings, for heating and hot water supply. Thus the project realizes the economy of steam, and the temperature control and convenience of hot-water heating.

All conduit was factory pre-fabricated and shipped pre-sealed to the site in convenient lengths. Installation was made in record time, with a minimum of excavation and backfill, saving countless man-hours and interfering little or none with other construction. The system is highly efficient, permanent, and maintenance-free—typical of all Ric-wil engineered projects.

*Ric-wil Insulated Pipe Units are ideal for hospital, school, industrial or municipal installations of all kinds. Let us show you their advantages on your next construction project.*



*Line of Ric-wil conduit from anchor to boiler plant (top left). Note shallow, narrow trench. Installing connector band. All necessary accessories are prefabricated and shipped with order.*

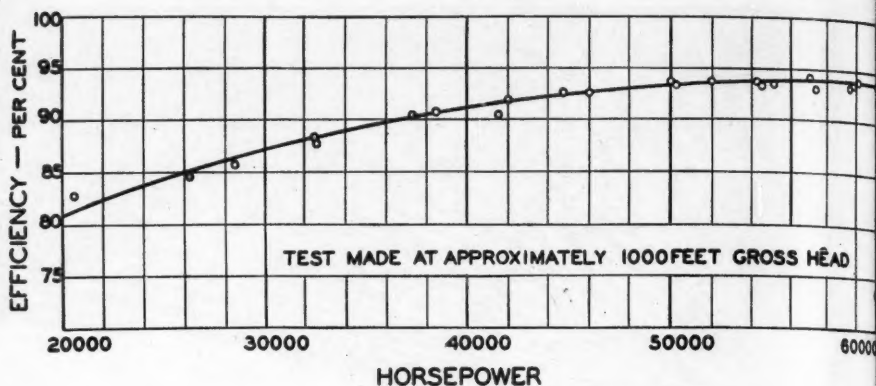


# RIC-WIL

INSULATED PIPE CONDUIT SYSTEMS  
 THE RIC-WIL COMPANY · CLEVELAND, OHIO

AGENTS IN PRINCIPAL CITIES

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**FIELD TEST CURVE**  
**for**  
**60,000 H.P.—925' NET HEAD—450 R.P.M.**  
**VERTICAL FRANCIS TURBINE**

*Built by*

**Newport News Shipbuilding and Dry Dock Company**  
**(Hydraulic Turbine Division)**  
**Newport News, Virginia**

Our facilities for building turbines, valves, rack racks, gates, etc., are now in use for constructing ships for the Navy.





Save to Win  
with these four simple rules  
of battery care:

- 1 Keep adding approved water at regular intervals. Most local water is safe. Ask us if yours is safe.
- 2 Keep the top of the battery and battery container clean and dry at all times. This will assure maximum protection of the inner parts.
- 3 Keep the battery fully charged—but avoid excessive over-charge. A storage battery will last longer when charged at its proper voltage.
- 4 Record water additions, voltage, and gravity readings. Don't trust your memory. Write down a complete record of your battery's life history. Compare readings.

If you wish more detailed information, or have a special battery maintenance problem, don't hesitate to write to Exide. We want you to get the long-life built into every Exide Battery. Ask for booklet Form 3225.

**Exide**  
CHLORIDE  
BATTERIES

## ... is a vital principle of utility operation!

Conservation of materials is no new story to the men who operate public utilities. With thrift and efficiency they have always planned for conservation.

They've squeezed the last ounce of use out of materials and equipment in their care . . . and today, that need is intensified.

One helpful principle to follow is that of "Buy to Last—Save to Win." Buy quality products and equipment, then care for it to avoid needless replacement. That conserves raw materials, labor, and space in factories. It frees these productive elements for essential war production.

THE ELECTRIC STORAGE BATTERY CO.  
Philadelphia

Exide Batteries of Canada, Limited, Toronto

# "3 up, and 3 to come!" ... - and all ELLIOTT

Another large utility entrusts its boiler feed pump drives to these fine, big two-pole Elliott induction motors. The three in the photo are each of 800-hp. The three additional motors about to be shipped are of 1750-hp. Pretty substantial-looking units, and as good in performance as they are in appearance.

Elliott engineers have been developing this type of motor for over twenty-five years, and have achieved impressive results. A considerable number of important utilities have discovered this, and when they require big, high-speed motors, they talk it over with Elliott.

Full details in the bulletin—on request.

**ELLIOTT COMPANY**  
Electric Power Dept., RIDGWAY, PA.  
District Offices in Principal Cities



Army-Navy "E" plant awarded to Jeannette and Ridgway plants of Elliott Company.



**ELLIOTT** MOTORS  
*For important drives*





## Utilities Almanack

Due to war-time travel restriction, conventions listed are subject to cancellation.



AUGUST



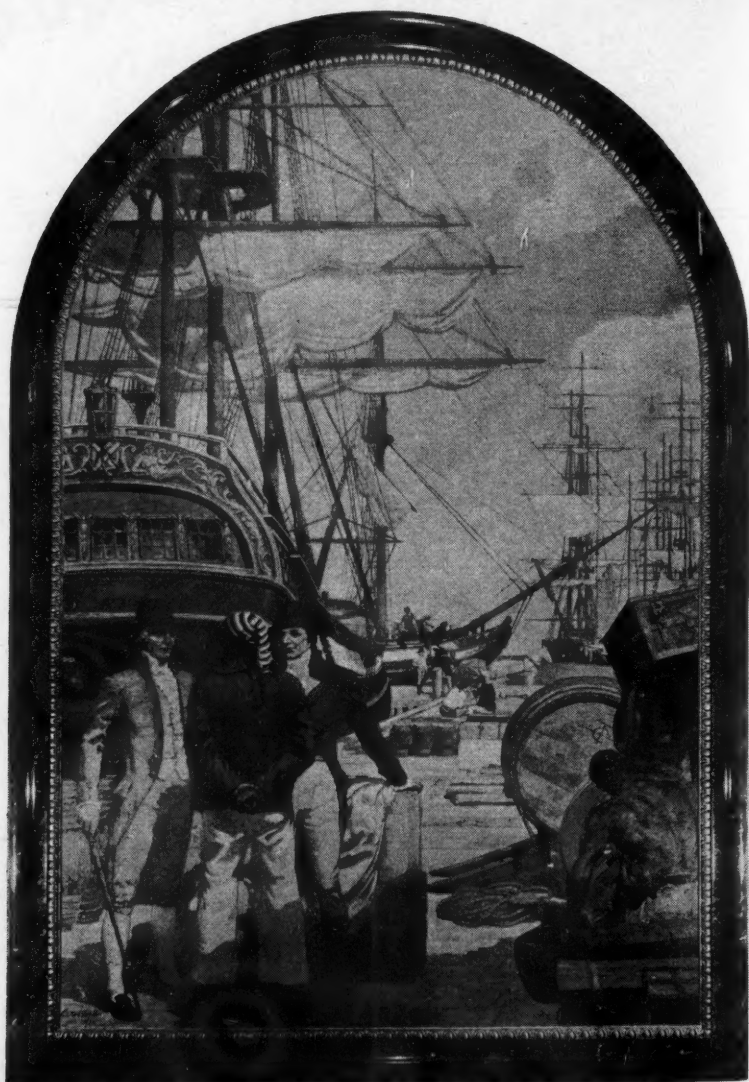
19	T <sup>h</sup>	¶ American Institute of Electrical Engineers will hold national technical meeting, Salt Lake City, Utah, Sept. 2-4, 1943.
20	F	¶ National Association of Railroad and Utilities Commissioners will hold annual meeting, Chicago, Ill., Sept. 14-16, 1943.
21	S <sup>a</sup>	¶ Municipal Electric Utilities Association of New York State will hold conference, Lake Placid, N. Y., Sept. 15-17, 1943.
22	S	¶ Association of Electrical Leagues will convene, Cincinnati, Ohio, Sept. 16, 17, 1943. 
23	M	¶ Southern and Western Governors will hold joint conference, Denver, Colo., Sept. 17, 18, 1943.
24	T <sup>u</sup>	¶ Pacific Coast Gas Association will convene, Los Angeles, Cal., Sept. 22, 23, 1943.
25	W	¶ Pennsylvania Electric Association will hold annual meeting, Pittsburgh, Pa., Sept. 23, 1943.
26	T <sup>h</sup>	¶ International Association of Electrical Inspectors, Northwestern Section, opens convention, Seattle, Wash., 1943.
27	F	¶ Association of Iron & Steel Engineers will convene, Pittsburgh, Pa., Sept. 28-30, 1943.
28	S <sup>a</sup>	¶ National Safety Congress will hold meeting, Chicago, Ill., Oct. 5-7, 1943.
29	S	¶ American Gas Association will hold annual meeting, St. Louis, Mo., Oct. 11-13, 1943.
30	M	¶ International Association of Electrical Inspectors, Southwestern Section, begins meeting, Los Angeles, Cal., 1943. 
31	T <sup>u</sup>	¶ Electrochemical Society will hold fall meeting, New York, N. Y., Oct. 14, 15, 1943.



SEPTEMBER



1	W	¶ American Society of Mechanical Engineers will hold conference, New York, N. Y., Nov. 29-Dec. 3, 1943.
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*A mural by Ezra Winter, reproduced by courtesy of Bank of the Manhattan Company*

*This is a shipping scene at the Battery in 1799. The merchant fleet of that day was an important factor in the business of New York city, when her leading merchants formed the Manhattan Company.*

# Public Utilities

## FORTNIGHTLY

VOL. XXXII; No. 4



AUGUST 19, 1943

### Who'll Give Me a Bid?

*A question sure to be asked by Uncle Sam, who at the end of the war will have on hand not less than twenty-five billion dollars worth of surplus goods which must be disposed of as a partial means of lessening the staggering tax burden.*

By HERBERT COREY

ONE of these days the auctioneer's hammer will begin to rat-tat like a machine gun all over the United States. The greatest bargain sale of all time will be under way. That is an understatement. If Ptolemy had offered the Pyramids at a dime a dozen plus a kiss from Cleopatra the prospect for buyers would have been no brighter.

ITEM—The United States will be left with not less than twenty-five billion dollars worth of surplus goods on hand. The sum is spelled out instead of being set down in figures. This cannot make it more comprehensible, for the mind cannot grasp the idea. Too many billion dollars for us. It does seem to

put the finger on the sum. Stated in words, it is more shocking than would be a row of little zeros.

ITEM—The United States will be left with no one knows how many acres of real estate on hand. This is literally true. The greatest cash-down real estate deal in history has shifted and is shifting so rapidly that no one can tell how many acres have been taken over for Army and Navy use. The government owns about 2,000,000 acres which have been taken over for cantonments and the like. Barracks and sanitation and waterworks have been put in. Much of this land had been productive farm land.

ITEM—The government has with-



## PUBLIC UTILITIES FORTNIGHTLY

drawn about 7,000,000 acres from the public domain ruled over by Secretary of the Interior Ickes, for bombing ranges and aviation instruction. Another lot of 2,000,000 acres has been earmarked for the same purposes and 24,000,000 more acres have been made available if needed. There is reason to believe that much of this land will be held permanently in government control. World conditions seem to be forcing on us a foreign policy which involves keeping in readiness a strong Army and a formidable Navy. These lands will be indispensable for the use of such armed forces.

ITEM—The government has invested thirty billion dollars in industrial plants and equipment in order to secure production on its seventy-five billion dollars or more contracts for war purposes. Like all the figures available at present this is a rough approximation. No one has information which would make the classification of this thirty billion dollar investment possible. The government owns outright in some cases, is a partner in others, holds a mortgage in still others, and in some enterprises owns, loans, and is a partner in agreements as indefinite as mist. This is not a criticism. The most valuable thing the Army and Navy bought in 1942 was time. They paid whatever price they had to pay.

ITEM—The government owns in whole or in part various hydroelectric enterprises of indefinite and varied scope. Bonneville, Boulder dam, and TVA are samples. The methods of capitalization are as unlike as the figures in a kaleidoscope. For the most part they have been in more or less complete operation long enough for the people in their immediate vicinities to form

a fair idea of their present or future worth. In this, "worth" is not to be measured in dollars, for the extravagances of their creation will in many instances seem sheer idiocy to the historian. Idiocy or shameless corruption. At present "worth" is to be construed as meaning value to the community. We spent millions on the first war's Muscle Shoals and it wasn't worth a dime to anyone.

THESE five items comprise the bulk of the disposable property which the government may set up as an offset to the load of debt the people must carry as a result of war and prewar expenditures. The present estimate is that this debt will be no less than three hundred billion dollars. It may touch four hundred billion dollars. It is quite impossible to be more precise, for no one knows when the war will end. It should be observed at this point that the war is not being won as easily and rapidly on the fighting line as on the first pages. In high military quarters the opinion is held that the Germans will not be defeated before the end of 1944. It must be understood that the hardest fighting lies ahead on the European continent. The war with Japan will presumably continue after this date. No one in authority, speaking off the record and in candor, will attempt to suggest how long we may be fighting the Japanese.

WHEN we have cleaned up on Germany, then, we may consider the Pacific war as a form of national industry, of uncertain duration, and at an enormous annual loss. This loss in the East will be accompanied by an indefinite outgo for setting up some kind

## WHO'LL GIVE ME A BID?

of a peace-keeping machine in Europe. It would be sheer nonsense to attempt to predict what this machinery will be. There is sound congressional opinion to the effect that it will comprise

a. a working alliance with Great Britain and Russia to forbid German rearmament,

b. an admission that these two powers will take what territory they want or need, and

c. consent that Germany may reorganize her affairs, because outside interference would merely bring about a repetition of the Nazi insanity. This is admittedly not a plan for justice but of realism. Nazi criminals, the mass murderers, the killers of innocent hostages, will be dealt with—if at all—by the countries in which their outrages were produced.

It is reasonable to assume, then—it is assumed in high congressional quarters—that when the war with Germany is definitely ended we will be able to take account of stock at home. The immensity of the debt burden will force this on us for when the fury of war begins to die down the taxpayers will begin to call for relief. Recent events in Congress have made it clear that unlimited expenditures by the executive branch of our government will no longer be tolerated. Byrd of Virginia has pointed out, for instance, that the Federal government employs two and

three times as many people as the state government in many states. Every Congressman with whom I have talked said that he expects to encounter on his summer vacation nothing less than fury in the people at home. A sharp reduction in governmental costs seems certain. Not immediate, of course. The jobholders will put up a mighty battle in 1944. But sure.

As to our offsetting assets:

ITEM—From the twenty-five billion dollars of surplus goods certain deductions must be made. It is quite impossible to establish a clear idea of these prospective totals. The guns and rolling stock and equipment furnished our Allies under the lend-lease fiction may be written off *in toto*. It was never expected these items would be returned to us. The political pledge was made just to soften up our people, who were not conditioned to the costs of war at the time the lend-leasing was made policy. Even if they could be returned we would not want worn-out goods. Some material of the military sort will be given to some of our Allies. Brazil, for instance, and Chili and Peru, and the Central American countries neighboring the Panama canal will be given artillery and planes in return for certain pledges of friendship and commercial coöperation. The present plans are to be extremely generous to China, both



“THE Associated Press recently surveyed the plans for post-war employment as a safeguard against mass unemployment. Suggestions involving almost four billion dollars are assuming definite form, but it is to be noted that these plans do not—at least in their present form—involve the participation of the Federal government to any extent. The conclusion must be that they will be put in operation by the communities when and to the extent that they will be practical.”

## PUBLIC UTILITIES FORTNIGHTLY

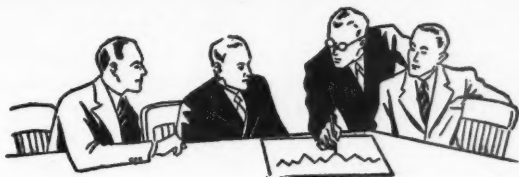
in military equipment and in such peace-time valuables as trucks and clothing. These transfers will be made as soon as Germany has been smashed and will be used at once against Japan. Whatever is needed for reserves from the twenty-five billion dollar surplus stock will be warehoused for the large Army we must maintain.

**I**T is proposed that we shall be as generous as possible with this twenty-five billion dollar surplus stock. The more we can get rid of on terms that offer us some form of profit or protection the better off we will be. That is the argument. After the first war we had surplusages valued at five billion dollars on our hands, it took us the services of 10,000 men for four months to inventory them, and when they were finally sold on the open market at from 5 per cent to 40 per cent of their original cost they smashed that market wide open. War goods stores were opened everywhere to dispose of them at ridiculous prices. Machine guns, rifles, revolvers, shoes, and other material suitable for the Prohibition era to come were on sale on Pennsylvania avenue. (I saw them.) The auto industry was hurt by the sale of Army vehicles. Blankets that cost the government \$12 were sold for \$2 a pair. In an effort to guard against this inevitable injury to American industry the government sold quantities in France for almost nothing. Much of it was given away. The buyers exported their purchases and gifts to the United States and undersold our own people. The present plan is to restrict our gifts—and some sales—to other countries to items that will be of value to our industry through the sale of parts, etc.

AUG. 19, 1943

There will be little realized from the twenty-five billion dollar surplus goods stock. Little by comparison. During the period of conversion from war to peace business there will be a demand for the things immediately needed by our people. Our trucks will be worn out, our automobiles will be about ready for the junk pile, the mountains of canned goods and underwear can be sold to hungry and ragged people. Boats now used for offshore guards will get back into circulation for fishing and pleasure. Four months after hostilities cease with Germany our own manufactures will come into the market to some extent, and in larger quantities progressively. One of the government realists thinks we may make a net recovery of two or three billion dollars. No more than that, and he thinks he is foolishly optimistic.

**ITEM**—There will be a considerable recovery from the war purchases of real estate. Already the government is trying to get rid of the Stevens and Congress hotels in Chicago, and scores of other hotels elsewhere. The old-fashioned hotels, with their big rooms and high ceilings, located along the two coasts, will mostly be kept for hospital and similar uses. The modern hotels built of plaster in tight little boxes will be sold for what they will bring. The farm lands purchased were taken for the most part because they were advantageously located strategically or for reasons of transportation and the like and it is not probable they will be sold, and certainly they will not be sold until the war on both fronts is definitely ended and the permanent military policy of the United States has been determined. This applies likewise to the 30,000,000 or more acres of swamp



### Public Ownership Bloc

**"T**HE public ownership bloc had its way for the past ten years. The time has come to forget all about politics, the bitterness of the past, the loss to private investors, and the yardsticks that proved to be of such a fine quality of natural and stretchable rubber. The fact has been established that if the people of the nation or state or city wish to own their utilities the ownership will become a fact."

and mountain and desert land, which will be needed for training and maneuvers. Much of the desert and mountain land, however, will be returned to grazing under strict regulation, and under military control. Areas not needed will be returned to the Interior Department. Probably to be held against future calls for war needs.

ITEM—The disposition of the government's thirty billion dollars' investment in industrial plants and equipment will depend on the future policy accepted by our people. That popular opinion is heavily in favor of a return to the earlier American plan of private enterprise coupled with strict supervision by Federal and state authorities is accepted by the leaders in Congress with whom I have talked. The disastrous failure of the administration to manage American business is cited as the chief reason for this attitude. "Every possible mistake has been made by the theoreticians," said one Senator, "and it has become evident to us that

the direction of business must not only be left to the men who know how, but to men who have a personal interest in success. The professors who have been mismanaging our affairs do not suffer in pride or pocket if they make a mistake. At the worst they are shuffled into a new job and the taxpayer foots the bill." "That," said the Senator emphatically, "is out."

But it may not be out.

**T**HE administration through its infinite number of "policy makers" has in mind a plan for government partnership in American business. The business world leadership will probably not resist strict control by Federal or state government, but the thought of government partnership gives it the shivers. They know from the experience of the last few years that partnership with government means government control. It is a long step toward government ownership. They not only believe that this would be resented by

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the people, but they know from experience that government ownership means blighting mistakes by the theorists at the cost of everyone else. They know that these government men are not to be argued with. They are incredibly stiff-necked and superior. They are so certain of their own goodness that they suspect the virtue of everyone else. Eugene Meyer of the *Washington Post* has a line for it:

"A man," he says, "may be righteous without being right."

But business leaders fear that the work of untangling government and private money will be so complicated that they will find themselves in partnership before they know it. "Some of these undertakings," said Colonel Leonard Ayres of Cleveland to me, "may never be untangled." In that case, as many maintain and as some of the government men admit, we are headed right for state socialism. Without entering on that debate the mechanical difficulties attending a return of properties to private ownership may be considered. Beardsley Ruml—the man who almost succeeded in returning our tax gathering to the pay-go basis—says the Federal organization must first be corrected. He noted the conflicts in basic policies in the various boards and bureaus, which talk and operate without the faintest evidence of control from any higher source. He also observed the fact that the Federal, state, and local governments notably fail to collaborate in policies of expenditures and taxation. The list of eminent men who have commented on the tangle of laws, policies, plans, promises, contracts, commitments, and threats might be extended quite indefinitely.

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**B**UT here is one huge, overshadowing, dominating fact:

When the war is over Americans will set about reducing that three hundred billion dollar debt—or four hundred billion dollar debt—and by some means lowering a tax rate that if not intelligently handled might become backbreaking. The alternative is the kind of an inflation Germany once went through. Dr. Max Hirsch, the economist who was once secretary of Germany's economic council, and who escaped from Germany before the worst happened, said to me that the proposition by "a Harvard economist" to increase the public debt to two thousand billion dollars is "nothing short of idiotic. The people would not stand for it." Sooner or later, said he, Americans and the world must return to a foundation of sanity, thrift, debt paying, and a recognition that the law of supply and demand may be dodged for a time but in the end The Law will catch up with the dodgers. Every business and financial leader—everyone outside the popcorn elements of the New Order—agrees to this statement.

**T**HERE are evidences that our national policy is being shaped toward tax reduction and debt paying, no matter what the popcorns may say. The annual conference of governors at Columbus made it clear that, to quote Turner Catledge in *The New York Times*: "There will be no more public work relief and leaf raking." They are preparing, Mr. Catledge continued, so to set their system that private enterprise, supplemented and encouraged by the efforts of the Federal and more especially the state governments, will have the chief responsibility of recon-



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verting industrial and agricultural America into a peace-time and productive machine. The Federal Real Estate Board has been working along the same line. It has recommended to President Roosevelt that:

"The government make lump-sum payments instead of taxes to local governments for acquired lands used for tax purposes."

That is a recognition that states and local subdivisions may not be permanently deprived of the revenues formerly obtained from lands. The conference of governors adopted a resolution demanding the reclamation after the war of all rights relinquished by the states as a part of the effort to win the war. Governor Maw of Utah suggested that the states set up a permanent lobby in Washington to guard against the invasion of states' rights by the Executive and to advise Congress when the rights of states seem in peril of invasion. The International City Managers' Association in a survey of 60 cities reports that cities are effecting economies in operation in every possible direction in order to reduce the tax burden. In a period of two weeks, more than a dozen bills were introduced in Congress directed toward a return to businesslike methods. These covered so many fields that no summary is possible, but as a whole they manifested a desire to move back

toward the older fiscal virtues. The very important Tolson committee's constructive report urged a return to home rule and putting an end to the centralization of power in Washington. The House passed the O'Leary bill, amending the Budget and Accounting Act to provide for the "more efficient utilization and disposition of government property other than lands and buildings, etc." A bill is now being processed in which the disposition of the government's real property will be provided for. There being no hurry in this matter it is possible that this may not come before Congress until early in 1944. The National Resources Planning Board was ordered by Congress to liquidate and vanish. The latest report of the NRPB was called socialistic on the floor of the House, for it was definitely aimed toward a further intrusion of Federal power into the affairs of business. Other citations might be made of evidences that the trend of popular thought—which invariably establishes the direction for congressional and state action—is toward the realization of assets, the reduction of the national debt as soon as practicable, and ultimately a trimming down of the debt burden. The Associated Press recently surveyed the plans for postwar employment as a safeguard against mass unemployment. Suggestions in-



**B**"BONNEVILLE . . . is in use up to the last available pint of water for war purposes just now. But when the war is over Bonneville's employment will either be furnished by the government, and that way state socialism lies, or by private enterprise either on its own bottom or in collaboration with the government. The past ten years have furnished proof that government is always repressive and never along the line of enterprise."

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volving almost four billion dollars are assuming definite form, but it is to be noted that these plans do not—at least in their present form—involve the participation of the Federal government to any extent. The conclusion must be that they will be put in operation by the communities when and to the extent that they will be practical.

Which is another way of saying that the hometown taxpayer seems to be making himself heard after a long silence.

A SUGGESTION is being heard that the many publicly owned or partly publicly owned hydroelectric operations be reexamined with a view to putting them on a business basis. Practically every one of them is at present a drain upon the public treasury. (There are war-time exceptions, of course.) As a class they have seized lands on which taxes were formerly paid, and in no case, so far as I am informed, have their payments to the state or local authorities equalled the tax losses. If they go in the red the Federal taxpayer settles their delinquencies. If they make money—and some of them do—their profits are turned back into the projects. Their money backing comes from the Federal or local treasuries at a borrowing cost much less than that of the private utilities. Not all of them have succeeded in lowering rates as compared with privately owned utilities and in any case the only gainers are the local ratepayers at the expense of the entire body of taxpayers.

All this—say the proponents of the new idea—is water over the dam.

THE public ownership bloc had its way for the past ten years. The

time has come to forget all about politics, the bitterness of the past, the loss to private investors, and the yardsticks that proved to be of such a fine quality of natural and stretchable rubber. The fact has been established that if the people of the nation or state or city wish to own their utilities the ownership will become a fact. Most of the heat has been evaporated through the progress of years. Americans are now confronted with a frightening public debt and a tax burden which in the years to come will be a national nightmare.

Why not look at these publicly owned utilities, and those owned in part by the public, from a coldly business point of view?

Bonneville, for example, is in use up to the last available pint of water for war purposes just now. But when the war is over Bonneville's employment will either be furnished by the government, and that way state socialism lies, or by private enterprise either on its own bottom or in collaboration with the government. The past ten years have furnished proof that government is always repressive and never along the line of enterprise. Business leaders have in hand today plans for furnishing Americans of the future every possible new and improved gadget from refrigerators one-quarter the outside dimensions of the cold boxes of today, and air coolers for entire houses that can be had at the cost of a 6-tube radio set of yesterday to automobiles that will eat one-third of today's gas ration and run on synthetic tires that need not be changed during the life of the car.

The argument is that private enterprise can do for the future what government restriction cannot do.

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And private enterprise will pay those badly needed taxes. The suggestion is that these hydroelectric projects built or backed by the government be opened to the investment of the privately owned and tax-paying dollar. Some of them might be sold outright. Others might be leased to the enterprisers. Every possible safeguard might be thrown around each transaction. The government's only plan to make a going concern of the Santee-Cooper project in the Carolinas, for example, seems to be to buy up certain private utilities, use their revenues to make a showing for the government project, and bar the whole caboodle from any future paying of taxes. It might be that a reversal of this scheme might put money in the government till instead of taking it out.

It can at least be said for the suggestion that it makes for the conversion of a herd of white elephants—in which herd are several very excellent and hard-working gray beasts—into a tax-paying proposition. And with a debt of three hundred billion dollars—or maybe four hundred billion dollars—hanging over our national head it would seem worth discussing without heat or selfish politics. The time to start thinking about it is right now. For when the war ends and we begin to face fiscal realities instead of bombers and U-boats and Japs with bayonets, that bargain sale will get under way. If we start thinking now we may escape the loss inevitable if the auctioneer's flag is run up and the sweep is toward getting out of a bad business in a hurry no matter at what cost.



**"W**e stand in America today at the parting of the ways. There are two roads we can take. One has the mile posts we have passed for three centuries. This road has been built by private enterprise, individual initiative, creative genius, the reward for which is self-reliance and independence. It has been built by a nation of strong individuals, people who realize that the government is theirs, is organized for them, and that the most precious thing in life is the human soul, its capacity for growth and development, for life and service to others. At the end of that road is a nation of free people, helping others, but ever keeping the spirit of the republic alive.

"The other way is an easy road. It is smooth, just a little bit down grade all the way, so that not much effort will be spent in traveling it. Along this way are false promises of demagogues and dreaming politicians, of ease and rest and Elysian Fields, bidding one to always stop and rest. The travelers are encouraged to spend and never to save. They are told they will be taken care of by their government. At the end of this road is the empty shell of what was once a glorious nation."

—JOHN W. BRICKER,  
Governor of Ohio.



## The Necessity of Living Off Each Other's Inventories

WPB pooling of surplus equipment and supplies helps gas, electrical, and water systems keep up plant without drawing too heavily on critical materials. It also points the way to thriftier store-keeping, and gives a pocketbook motive to simplification.

By JAMES H. COLLINS

**W**HEN WPB set up its public utilities division in Los Angeles, in March, newspaper readers learned, in the usual announcement, that this was a new bureau which would enable water, electric, and gas utilities to live off each other's fat in the matter of materials.

Already, the utility men who were placed in charge, some of them drawn from retirement, have got far enough along to make some after-war predictions.

They believe that the utilities will never again put on the inventory fat that, in this war, has proved to be a blessing.

They expect to see standardization and simplification of equipment, materials, and supplies really get a-going—for war has given it a practical motive

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for the program which, started by Herbert Hoover when he was Secretary of Commerce, won hearty approval in theory, but lagged because the old ways of diversity and individuality were easier to follow.

WPB's materials pool is a war agency to which Washington and Business may point with pride. The tendency in war is to start with confusion and red tape, and as experience is gained, and man power dwindles, get down to brass tacks.

This agency runs like a dollar alarm clock. It has a small staff of men who, in utility jobs, spent most of their lives buying and storing the very kind of stuff they handle for WPB.

With several thousand water companies, municipal water systems, and gas and electrical utilities, including

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some publicly owned, all reporting inventories to the two central offices for the western states, in Los Angeles and Portland, its detail might be throttling. But actually, the offices are so organized that they can instantly tell where any given kind of material is to be found for sale, and its inventories are more complete and more promptly revised from day to day than those of the very companies reporting.

THE "buck" is no longer passed—it has passed completely out of the picture. When a harassed utility executive in Arizona or Nevada wants a quantity of cable, or a motor, he asks the Los Angeles office about it, and learns that one or more other companies somewhere in the three states have that stuff to sell. Specifications are so complete that he is referred to sources for the exact kind of material needed—no errors or blind spots in the information about capacity, condition, or other details. When he reports that his requirements have been supplied by the X Company, those items disappear from the central inventory, so that tomorrow no other "customer" will be directed to an empty cupboard.

That ideal, so often voiced by businessmen enmeshed with government bureaus staffed by professors and politicians, "somebody who talks our language," has been realized. This bureau speaks the language of the utility buyer and storekeeper. It is the kind of bureau that eventually comes around, if war lasts long enough—and if business lasts!

While this organization keeps track of materials for gas, water, and electrical systems only, it has in California alone more "customers" than the Cali-

fornia Railroad Commission, because its lists include municipal systems, and the commission's activities are confined to the privately owned utilities.

GETTING in the first lists of surplus material owned by all these systems, for a beginning, looks like a formidable job. And keeping them up to date, in such classified form that the smallest quantity of wire, or pipe, or cable, can be turned up in a file, even the lot that happens to be nearest to the company that needs it, would appear to be a job for rows upon rows of clerks.

Nothing of the kind!

In their normal business routine, many of these companies and municipal departments take inventories of materials on hand only once a year. So the pool must have better information about what they have than they themselves in peace times.

Getting started with its only stock-in-trade, which is information, the pool had advantages.

First of all, the "customers" were glad to report, and quick about it, and W. J. McCullough, a retired Southern California Edison storekeeper, heading the Los Angeles office wants to take this opportunity of thanking them for their coöperation.

THEY all knew that there is a war on, and they all had needs to be supplied from the pool—that helped get things going. Moreover, this idea of a materials pool operated by utility men, started in the utilities themselves, when a gathering of electrical utility men suggested it for their industry last fall, in Pittsburgh, hoping that it would be taken in hand by the government and made nation wide.





### Procedure for Securing Materials

**“W**HEN a harassed utility executive in Arizona or Nevada wants a quantity of cable, or a motor, he asks the Los Angeles office about it, and learns that one or more other companies somewhere in the three states have that stuff to sell. Specifications are so complete that he is referred to sources for the exact kind of material needed—no errors or blind spots in the information about capacity, condition, or other details.”

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**T**HEN, the “customers” had had previous drill in living off each other’s fat. Even before Pearl Harbor, purchasing agents in the various utility industries had met their shortages by calling up near-by companies in their own line, and listing surplus materials for the buying as well as the selling side. The practice was developed in other fields—for example, when Washington told Hollywood that it must not spend more than \$5,000 for new materials to build sets for any one picture, the studio purchasing agents quickly got their own pool going, and with such success that recently, when the government lifted that ceiling, the studios were not excited. They have learned to adapt and trade, scout around for secondhand material, and use substitutes. They intend to stay below the original ceiling. It has taught them economy.

Then, in Los Angeles, utility buyers joined with manufacturers to set up a

pool operated in the metropolitan area under the chamber of commerce, which handled the information.<sup>1</sup> Within priorities, this pool made surplus stuff available to the whole business community, and widened the sources upon which utilities might draw.

Finally, although there were hundreds of separate utility systems, many of them reported their surplus materials through one parent company.

**C**LEARLY, this experience in pooling materials for war is going to teach its lessons in more frequent inventories, automatic inventories, closer estimating of requirements to hold down surpluses without danger of shortages—war housekeeping has its good points for peace times.

With forms drawn up by experienced material men, covering the es-

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<sup>1</sup>PUBLIC UTILITIES FORTNIGHTLY, Vol. XXX, No. 5, p. 287, Aug. 27, 1942.

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sential data for each kind of supplies and equipment, and no nonessentials, the information comes in ready to be transferred to master lists, and with the minimum of clerical work—or skill. Such office workers as are available these times can keep the lists posted from day to day.

If an inquiry is made for electrical cable, all cable in the pool is catalogued in a loose-leaf ledger, by sizes, lengths, capacities, types of insulation, location, amounts. The inquirer is referred to somebody in his locality, or as near as possible, and takes over the deal from there, making his bargain for purchase with the company that offers the best terms. The pool has nothing to do with all that. It simply removes a particular lot of cable from its lists when the buyer reports a purchase. Or it may be a trade, or a loan—full freedom is allowed in making the deal, and as far as the central office has information about it, these deals are made pretty close to costs. The objective is getting on with a war. This is not a business in which money could be made by price dickering. The volume is too small, the goods cannot be replenished.

**U**NDER the rules, no utility or municipal service system is permitted to buy, from any source, more than \$100 worth of materials, without first checking with the pool authorities, to see if some other utility or system has surplus stuff. The territory covered is large, the amount and variety of material thus far available has been surprising. Thus, new materials bought from manufacturers and suppliers are reduced—which is the big idea.

How long can utility systems live off each other's fat?

With everything going out, and nothing coming into their storehouses, and almost nothing new being bought, it would appear as though they were progressively getting thin together, even in materials that are needed for maintenance, not new plant.

Yes—and no. The pool is open to certain outsiders, such as private contractors, building camps, barracks, and other military plant. They are seldom in position to exchange this for that, because unlike the utilities, they have little fat. They start a contract by getting in all the equipment and material they will need, have no storehouses or surpluses, use up what they obtain.

But now these projects are tapering off, being completed, and some are being canceled. Whatever they have on hand when a job is finished, they turn back into the pool. That postpones the day of reckoning.

**W**ITH inventories of major materials being taken frequently, in some cases every few days, utility men are discovering that a world of stuff has been lying neglected in storehouses, tying up money. Some of it has been growing obsolete, and might never be used, but would be carried indefinitely until there was a general housecleaning, when it would be sold for junk.

Better housekeeping can reduce this burden, and utility men in charge of the pool are confident that the industry will learn its lesson.

In America, too much has not always been enough, and it is interesting to compare our methods with those of poorer countries.

The writer was fascinated by the way the Germans used materials, on a visit to Berlin before the first war.

**Q** "WITH several thousand water companies, municipal water systems, and gas and electrical utilities, including some publicly owned, all reporting inventories to the two central offices for the western states, in Los Angeles and Portland, its detail might be throttling. But actually, the offices are so organized that they can instantly tell where any given kind of material is to be found for sale, and its inventories are more complete, and more promptly revised from day to day than those of the very companies reporting."



His hotel room was steam-heated, but it took a search to find the installation. Under a window seat there was a copper radiator, not larger than a shoe box, and it was fed through copper tubing, about the diameter of a lead pencil, that ran along the floor, at the wall. Copper was used almost by the ounce. Later, inspection of the telephone and other utilities showed the same frugality with materials—they cost more over there, when imported, and the Germans didn't have as much money as ourselves. Where we took pride in the expansiveness of our living standard, they took pride in getting along with the minimum.

**T**HERE WAS one suburban street outside of Berlin that was worrying the authorities. About a half-mile long, and lit by a half-dozen street lights, hardly anybody used the street after midnight, and the idea of all that illumination being wasted led the authorities to install a slot device at each end, and turn the lights off at midnight. Any belated pedestrian who wanted his way lighted thereafter could drop a small coin in the slot, and have the street lit long enough to get through.

To this reporter, that was funny—  
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he imagined an inebriated Teuton putting in his five-pfennig piece, staggering ahead, and getting only half way through before the lights automatically went out, when he crawled back and started all over again.

But today, that isn't quite as funny. Whether we know it or not, the European idea has been working among us for a generation or more. We will always use more material—but year by year, we are learning to use less, and this experience in living off the midriff is not going to be lost on us.

Even more likely to sink in is the practical lesson in simplification and standardization.

Now that utilities are compelled to draw on each other for materials and equipment, they are discovering the high cost of private initiative in all sorts of supplies. The diversity is enormous, and has become so in two ways. Manufacturers have designed without general standards to govern minor details that do not matter, such as diameters, weights, screw threads. Purchasers have followed their own specifications without much thought of other concerns in the same field.

Now that they must all draw upon each other, this diversity causes trouble that, they discover, could be eliminated

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by more simplification and sane standardization, and for that program there appears a new motive.

**S**IMPLIFICATION has always been preached to the manufacturer—and why should he go to all that trouble and expense, when his customers were well enough satisfied with his product?

But now the customers have had a lesson in the value of standards, and they are undoubtedly going to profit by it.

War has brought to this country an entirely new problem—that of getting along, for an unknown number of years, with equipment that was designed and built to be scrapped as soon as something more advanced was available.

That we would some day be compelled to get the last five thousand miles out of an automobile, or make a motor or transformer last several times as long as was intended by the engineers who designed it, and those who bought it, was something so remotely unlikely to happen to us, that we never gave it a thought. In depressions, we have been forced to economize, but only with money, in a world of abundant materials. War is different. Money is abundant, but your car, motor, transformer are precious, and you have to make them do, because there isn't another to be had for love or money.

On top of that, as all of us—and especially utility men—discovered when Civilian Defense had to be organized, you must share with your neighbor, ride with him, take alternate days for using what you've got, join his system, let him tie into your own, be ready to shift in a jiffy if an emergency comes.

The fewer tire sizes, screw threads, frequencies, and gadgets, the luckier for you.

**C**LEARLY, this experience of doubling up, stretching out, and making last, is going to be remembered for at least a generation.

We will get back as soon as possible to our American way of using things until a better model is ready, and building into them enough durability to last that long, and maybe a little longer.

But we will do well to keep in mind this emergency of war. Instead of "It can't come," we ought to remember that it has come, and that we may again have to live off each other's inventories.

In Germany, where war has long been a major industry, they take the view that the country is always at war, even though there doesn't happen to be any fighting going on for the moment.

And they design accordingly.

The materials pools show that there are points to that view.

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**"T**HE whole future of our civilization depends upon the success with which we master the business of modern government. We have learned in a century and a half of many functions which can only be performed by a strong national government. Our experiences have also shown the mistake of allowing the national government to have control of problems too remote from it, problems not known, let alone understood by people in central government, far removed from the people."

—THOMAS E. DEWEY,  
Governor of New York.

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## The FCC Controversy

Congressional investigation of the communication agency sure, in the opinion of the author, to be of lively "public interest"

By LARSTON D. FARRAR

**W**HEN on July 10, 1943, President Franklin D. Roosevelt publicly silenced certain officials of the executive branch and prohibited them from furnishing files or information to the Select (special) Committee of Congress investigating the Federal Communications Commission, he accomplished in one easy stroke what others had been trying to do for some months—get a long-smouldering domestic controversy on the front pages, despite the war news.

Mr. Roosevelt took his stand against the congressional committee because of the "public interest" involved, according to his spokesmen, but there is reason to believe that he succeeded more in arousing public interest than in protecting it. Whether he intended to do so or not, the President assured the congressional committee plenty of publicity for some time to come, a fact that could not be too displeasing to Congressman Edward Eugene Cox, the committee chairman, as he looked over the press clippings.

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**T**HERE are many who doubt that it is to the public interest to keep any practices of government bureaus from coming to light. But, undoubtedly, many members of the public do think now is the proper time for bringing instances of bungling or of any kind of inefficiency or certain improper governmental activities to light. In a sense, it might truthfully be said that a knowledge of such facts, if they exist, would not be to the public interest. On the other hand, there is reason to believe that many military officers side with the congressional committee and would be most happy to have the facts, with reference to the FCC situation, brought to public attention.

**T**HE controversy climaxed by Mr. Roosevelt's intervention has many facets. Intertwined with it are such scattered happenings as the successful Japanese attack on Pearl Harbor, the desire of a Georgia chamber of commerce to obtain a big radio station for its city, the defiance of a congressional



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committee by a former Rhodes scholar, the loss of his job by a Republican FCC member, and, not to be overlooked, the desire of a large number of citizens to learn just what is wrong, if anything, with the FCC.

Mr. Roosevelt's action in the FCC matter did not go unchallenged. Only a few hours after the silencing became known, Congressman Cox asserted calmly:

"The committee believes it the wisest policy not to press this incident at this time, but it cannot pass the issue presented, because it is too fundamental.

"If it is possible and appropriate for the Chief Executive thus to limit the investigations of a Select Committee of the Congress, and to impede its work on the ground of his determination of the public interest, then it would follow logically that he or some other Chief Executive could so interfere with the functions of a standing committee of either house.

"This raises the question: Where rests the power to determine what the public interest is? Is it a power that belongs to the government, or to only one branch of the government? Is Congress to be rendered powerless to determine for itself what is or is not the public interest? If this be so, then who is to legislate in the public interest—or is there to be no legislation at all? Thus we are brought face to face with possible congressional frustration.

"It scarcely need be said that the whole concept of our American system of government under our Constitution rests upon the fundamental principle that each of the three coordinate independent branches of the government, although checked and balanced by the

other, cannot be subject to domination by the others without the whole structure crumbling.

"Thus is presented an issue in which there is involved no question of personalities whatsoever, but a fundamental issue of the proper exercise of the appropriate constitutional functions of each of the three branches of the government.

"If the committee finds itself too seriously handicapped by the present situation it will feel called upon to refer the matter back to the House of Representatives for action."

AFTER all, Congress, as the legislative (therefore policy-making) branch of our government, has, presumably, just as much right under our Constitution to determine what is "in the public interest" as the administration. In this case, it happens that the administrative agency in question is under examination of a committee of the legislative branch. Undoubtedly the latter's purpose is to see whether legislative correction of the FCC is in order and in what manner.

Since when does the party being investigated decide what is "in the public interest" before divulging, or refusing to divulge, information to the investigator? It almost sounds as if the prisoner in the dock were to stand up and tell the judge, jury, and prosecutor:

"I will not coöperate with these proceedings. I just don't like the set-up. I don't think I'll get a fair trial here. When you arrange a tribunal more to my liking, maybe I'll do business with you; but not before!"

In view of this FCC-Cox committee situation, it seems likely that when Congress reconvenes on September

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14th (unless it is called back by agreement before that time), the FCC controversy will become a subject of considerable attention. Perhaps it will be noted as a further split between the executive and legislative branches, a schism that has grown ever wider since the Seventy-eighth Congress came in.

**T**HAT the Senate will have something to say about the FCC when Congress comes back in September was made clear on July 8th by Senator Burton K. Wheeler, chairman of the Senate Interstate Commerce Committee, who declared that he was in accord with a proposal by Senator Robert Taft that Congress—and not the FCC—write the specifications for government restraints on communications. Senator Taft had pointed out the growing dangers to free speech arising from the present administration of FCC.

The newspapers, as usual, have reported only the *obvious* portions of the FCC controversy, and it is necessary to delve deeply into information sources to piece together the whole tangled story. Briefly, here are the facts:

On January 19th last, the House of Representatives voted almost unanimously to sponsor an investigation of the FCC after urging by Congressman Cox, who was named chairman of the investigating committee. Named to serve with him were Warren G. Magnuson (D., of Washington), Edward

J. Hart (D., of New Jersey), Richard B. Wigglesworth (R., of Massachusetts), and Louis E. Miller (R., of Missouri).

The FCC at the time was composed of seven members—Chairman James Lawrence Fly, prominent New Dealer; Paul A. Walker, Norman S. Case, T. A. M. Craven, Ray C. Wakefield, Clifford J. Durr, and George Henry Payne. While Mr. Fly, chairman, naturally has gained the most publicity from the investigation thus far, both Mr. Durr and Mr. Payne have been in the news. Mr. Durr has distinguished himself by refusing to give certain files to the committee and by asking Congress to remove Mr. Cox from the committee, something unheard of in Washington history, incidentally. Mr. Durr is Supreme Court Justice Black's brother-in-law and a Rhodes scholar. Mr. Payne came into the news when the President on June 30th sent his name to Congress for another term on the commission, but withdrew it the next day. Just why this was done is a puzzle even to Chairman Fly, he says.

**T**HE FCC administers the Communications Act of 1934, exercising functions previously vested in the Federal Radio Commission, certain functions once exercised by the ICC with respect to telegraph operation, powers formerly exercised by the Postmaster General with respect to govern-



**Q**“THERE are many who doubt that it is to the public interest to keep any practices of government bureaus from coming to light. But, undoubtedly, many members of the public do think now is the proper time for bringing instances of bungling or of any kind of inefficiency or certain improper governmental activities to light.”

## THE FCC CONTROVERSY

ment telegraph rates, and powers formerly exercised by the State Department under the Cable Landing License Act. Its powers extend beyond those previously vested in the other agencies, and include authority to exercise powers derived under many international agreements relating to communications.

Although the investigation ostensibly began to develop facts about the FCC's activities under Part I of Title III of the act, relating to radio licensing and regulation, thus far the emphasis has been on getting information regarding FCC's so-called "war work." This "war work" is divided into three units—the Radio Intelligence Division, which supposedly keeps all radio communications under surveillance; the Foreign Broadcast Intelligence Service, ostensibly formed to monitor foreign broadcasts; and the War Problems Division, which assertedly "prepares orders, regulations, reports, recommendations, executive orders, and proposed legislation" dealing with communications and the war.

In addition, there is the so-called Board of War Communications, of which Mr. Fly also is chairman, and it was as chairman of this so-called "war agency" that he was forbidden by the President to answer questions of the congressional committee.

The genesis of the investigation, however, began long before the House of Representatives authorized the investigation of the FCC. Oddly enough, it was in the city of Albany, Georgia, the economic capital of Georgia's second congressional district, which has been represented by E. E. Cox for almost twenty years. In the fall of 1939, the Albany Chamber of Commerce di-

rectors outlined the following civic objective for the ensuing year:

"Seek better radio facilities for Albany, with a national chain hook-up."

THE city had a 100-watt station then, but citizens urged the owners of *The Albany Herald*, only daily newspaper there, to start a bigger and better station. After much urging, the newspaper owners started out to do this.

Until that time, Congressman Cox was happily ignorant of the whole project. When he received letters from Albany urging him to help get a bigger and better radio station in the city, he pledged his undying support. Many another Congressman faces this same situation every day. Congressmen who do not evince enthusiasm do not remain Congressmen long. This is just an old American custom to which even smarter - than - average citizens bow, whether it is sociologically correct or not.

When groups came to Washington from Albany to get a bigger and better radio station, Congressman Cox naturally helped them all he could. He introduced them to Chairman Fly and exercised all the political skill possible to accomplish two aims: (1) get a better radio station for his constituents, and (2) convince these constituents that he, Congressman Cox, was the man who really did the job. If there are those who condemn him for these aims, it must be said that they will never be Congressmen.

As a result, in December, 1940, *The Albany Herald* owners were issued a construction permit for a new, 1,000-watt station, to be known as WALB. It was at this time that a rather



### "War Work" of the FCC

**"T**HIS [FCC] 'war work' is divided into three units—the Radio Intelligence Division, which supposedly keeps all radio communications under surveillance; the Foreign Broadcast Intelligence Service, ostensibly formed to monitor foreign broadcasts; and the War Problems Division, which assertedly 'prepares orders, regulations, reports, recommendations, executive orders, and proposed legislation' dealing with communications and the war."

untoward event occurred. Henry T. McIntosh, editor of *The Albany Herald*, expressed belief that some material token of appreciation should be given Congressman Cox because of his efforts. Mr. McIntosh suggested that they make Mr. Cox their attorney and give him a \$2,500 retainer fee.

**C**ONGRESSMAN Cox, hearing of this, objected strenuously (according to affidavits of Albany businessmen), but the money was paid to him nevertheless. When he received the check, Congressman Cox insisted upon investing the whole amount in stock of the corporation that had been formed to own and operate the radio station, and, so that the whole transaction would be a matter of complete record, he gave his personal check for the stock in the Albany Herald Broadcast-

ing Company. He then assigned the stock to a private charity, dating the assignment. Due to the fact that the Albany Herald Broadcasting Company not yet has been given permission by FCC to take over Radio Station WALB, the stock is, for all practical purposes, worthless.

As expected, shortly after the station began operations, it applied for an increase in power and a change in frequency. Although officials of FCC had assured the station owners that approval for such application was only a matter of time, more than a year and a half has now passed without action. Meantime, there occurred an incident that made Congressman Cox determined to investigate the FCC.

On March 8, 1942, Russell Rowell, FCC attorney, went to Albany and carried on an extensive investigation

## THE FCC CONTROVERSY

of the Albany Herald Publishing Company and the Albany Herald Broadcasting Company. Joined later by Charles E. Clift, another FCC agent, Mr. Rowell spent more than a week in the city, visiting banks, the newspaper office, and at the radio station.

THESE men made a number of accusations and insisted upon the right—which they did not have, but which was freely and gladly accorded them—of nosing through the correspondence files of the Herald Publishing Company, Radio Station WALB, and the office files of DeLacey Allen, attorney for the companies.

They then demanded the right to remove from those files any item they desired, but this was denied. Finally, it was agreed that the two men would take certain specified files to Atlanta to be photostated and returned within three days.

They not only took the files agreed upon, however, but went back to the radio station offices after officials had departed, examined the files again, and left with much unreceipted material. Then they hastened to Washington with the originals.

Among other things, during their week's stay in Albany, the agents, it is charged, illegally obtained access to the account of and records of Congressman Cox in the City National Bank of Albany.

All of this is fully supported in affidavits and is a matter of public record in Albany, where Congressman Cox is more popular than ever. Congressmen say that Mr. Cox could do no more than launch an investigation of the FCC considering the manner in which the FCC agents have treated him and

the indignities to which he has been subjected.

CHAIRMAN Fly has made the most of the fact that Congressman Cox actually accepted \$2,500 for serving the radio station. But on behalf of Congressman Cox it must be remembered that many Congressmen practice law while still Congressmen and that no legal question is involved unless it can be proved that Congressman Cox took the money for actually rendering services as a Congressman.

However, this fact does not affect the *specific* charges made against FCC by the military and by the congressional committee. Pointing the finger of scorn at Congressman Cox does not answer charges against the FCC. It is entirely *argumentum ad hominem*. It is unfortunate that this type of personal attack is permitted to obscure real issues.

For example, when Eugene L. Garey, prominent New York attorney, was selected as chief investigator of the congressional committee, Mr. Fly came out with a lengthy charge to the effect that Mr. Garey was a "Wall Street lawyer" and represented the "big interests." Just what this proved was not made clear, particularly when Mr. Garey later showed from Mr. Fly's autobiography in *Who's Who* that Mr. Fly had once been a Wall Street lawyer himself. Both charge and counter-charge add up to nothing. After all, President Roosevelt himself once practiced law in Wall Street.

FOLLOWING disclosure that the Joint Chiefs of Staff were trying to have the FCC's "war work" transferred to the Army and Navy, Mr. Fly made an-



## PUBLIC UTILITIES FORTNIGHTLY

other puzzling rejoinder. Instead of telling why this should not be done, he asserted that the move was part of a combined attempt of "Cox, the radio monopoly, and the military" to wreck the FCC and set up "monopolistic control by commercial interests of the nation's most significant mechanism of free speech."

Can this be considered a serious answer to a most important letter written to President Roosevelt on February 1, 1942, by Admiral William D. Leahy, on behalf of the Joint Chiefs of Staff of the United States Army and Navy? The letter stated that the FCC is constantly expanding its activities and that this is a "substantial drain on available material and personnel."

THE statement is made that the information obtained by FCC "through its own radio-intelligence activities is not, in a military sense, secure, due to inherent tendencies toward publicity of FCC activities, use of non-secure methods of reporting and correlation, and the necessarily close relationship of the FCC military-intelligence activity with other phases of the agency's work."

At this point, the letter makes this surprising statement:

"Because of the essential differences between military and FCC standards

and methods, it has not been possible to integrate their information, with the result that the attempted duplication by the FCC to work that is being done effectively by the military has in fact endangered the effectiveness and security of military radio intelligence.

"In view of the foregoing, it is concluded that the better prosecution of the war will be served by terminating all military and quasi military intelligence activities of the FCC and confining such activities to the Army and Navy."

This letter was made public at the first meeting of the congressional committee on July 2nd. Before the next meeting, on July 9th, the President silenced the Army and Navy officers who had been asked to testify. It is interesting to learn from Congressman Cox and from Eugene L. Garey, the chief investigator of the committee, that members of the armed services were anxious to testify. It is also interesting to learn that members of the commission itself are anxious to testify.

AMONG other things, the committee investigators say they can prove that:

FCC exercises, through the domination of Mr. Fly, unlawful powers for the furthering of alien political ideologies and philosophies.



THE FCC administers the Communications Act of 1934, exercising functions previously vested in the Federal Radio Commission, certain functions once exercised by the ICC with respect to telegraph operation, powers formerly exercised by the Postmaster General with respect to government telegraph rates, and powers formerly exercised by the State Department under the Cable Landing License Act."

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FCC employs its powers to reward political friends and punish political enemies.

FCC has terrorized the radio industry so thoroughly that many licensees refrain from challenging unlawful and excessive acts of the committee, or from exercising their legal rights.

FCC has sought to dominate and control the entire communications field, private and governmental, without lawful authority and contrary to the express intent of the Congress.

FCC has wilfully evaded and procured the evasion and violation of laws affecting the civil service.

FCC has sought to cloak itself as an essential war agency making a vital contribution to the war effort, although in truth its alleged war activities constitute a danger and menace to the national security.

FCC has what is commonly called a "gestapo" to spy on the radio industry and other industries and this "gestapo" violates the constitutional rights of individuals.

FCC has interfered with free speech on the radio, despite express statutory prohibition to the contrary.

ONE of the most serious charges made against the FCC was contained in a memorandum prepared by Admiral Stanford C. Hooper, now retired. This report was written in May, 1942, while Admiral Hooper was a naval intelligence executive, and it was inserted in the congressional committee's record on Saturday, July 10th, by Congressman Cox without comment.

Admiral Hooper's report, which was submitted only to his superior officers for action and was never designed for publication, made thirteen serious charges against the FCC. Among them were:

The FCC "has refused to turn over its file of fingerprints and confidential information bearing on the loyalty of

employees to the FBI, without restrictions which would render the work of the latter agency ineffective."

Mr. Fly "has frequently taken it upon himself to speak for national defense, thereby exposing his ignorance of the subject," and has "shown that his primary interest is in keeping the support of the CIO communications union, which has constantly opposed our interests, and has not supported national defense."

Mr. Fly "has devoted too much of the time and energy" of the FCC "to trust busting, to the detriment of its other duties," and has opposed legislation permitting wire tapping "which would have permitted checking of the telephone to Japan before Pearl Harbor, and might have prevented the disaster."

Mr. Fly "opposed stopping Japanese language broadcasts in Hawaii, a factor which led to the disaster of Pearl Harbor, and has "consistently opposed any move to assure the loyalty of personnel in communications."

SIMULTANEOUS with the release of this document to the press, Congressman Cox also made public a document entitled: "A Résumé Made by the War Department" of Admiral Hooper's statements, which asserted that "in a great number of examples Admiral Hooper is correct, and testimony under oath by any other connected with these matters can only substantiate the story."

To all of which Mr. Fly declared: "The documents . . . are but irresponsible charges which the Cox committee has handed out in a bid for publicity."

If this is so, the FCC should welcome an investigation to clear itself, if it can do it so easily. The congressional committee will continue its investigation, and the Senate is slated to start a similar one in the fall.



## OUT OF THE MAIL BAG

### SEC Turning to More Practical Course?

**R**ECENT decisions of SEC in the Engineers and EB&S repurchase cases make interesting footnotes to my article of a year ago entitled, "Is SEC Drifting off Course?" [PUBLIC UTILITIES FORTNIGHTLY, September 24, 1942.]

Refusal to allow Engineers to take an important step towards compliance with the Holding Company Act by repurchasing its preferred stock was a great disappointment. I felt it to be a setback for those whom I had described as the realists.

Decision permitting EB&S to use \$15,000,000 for repurchase of its preferred stock was a stride in the other direction. It will be a source of great satisfaction to all believers in administration by commission. (I was better pleased with the decision than with the reasoning used to reconcile it with the Engineers Case.) The main point is that the men whose primary aim is to administer the Public Utility Holding Company Act and to carry out its purposes won an important victory over those elements within the staff of SEC who are following "a personal conception of social policy."

Those who may be troubled by the apparent inconsistency of these decisions should remember that a group cannot be judged by individual standards. The Supreme Court has risen to its greatest heights through inconsistency. Group decision is the product of collision between individuals; it is not surprising that deliberative bodies, even the best, move somewhat erratically.

It seems clear that SEC is resolving a conflict by the traditional democratic process. The practical-minded administrators on the staff appear to have gained their point. Congratulations and more power to them!

—JEROME PRESTON,  
*Lieutenant Colonel, U. S. Army Air Corps.*



### Mr. King Makes an Offer

**Y**OUR issue of July 22nd carries an article by former Congressman Clyde T. Ellis titled "What's behind the Attack on NRECA?" It is

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intended as a rejoinder to my article on "The True Origin of NRECA" in your issue of July 8th.

The ex-"Gentleman from Arkansas," now executive manager of the National Rural Electric Coöperative Association, seeks to make of me an elder brother of Ananias in respect to my statements concerning the origin and management of his organization. He alleges, in effect, that my sole motive is that of self-interest in disregard of the welfare of REA, and that I am now an unwitting tool of the power trust.

There is one new thing: that I applied for the job he now holds. I do not care to descend to the "you're another" level, but if the gentleman can produce such an application signed by me, or the affidavit of a single reliable person that I ever made oral application, I will hand a \$100 war bond to the Red Cross or any Arkansas charity Mr. Ellis may name.

As to the germane issues, he ignores totally my evidence that former Deputy Craig was the real founder of this organization. He denies that he presented a prepared letter to Administrator Slattery for signature endorsing the insurance mutuals; that they originally intended to insure individual members and their families as well as coöperatives; that any money in loans had been received; that Federal money was involved; and that President Tate had, in effect, threatened to drive Administrator Slattery out of public life.

Since these and like matters will doubtless be considered by the Senate investigating committee under the Shipstead resolution, let us wait until the sworn testimony is on record, and then see whose face is red.

—JUDSON KING,  
*Director, National Popular Government League.*



### Re Revenue Bonds

**W**ITHOUT attempting to discuss the main thesis of Herbert Corey's article on revenue bonds in your June 10th issue, I would like to point out some very curious misstatements contained in the article.

In the first place, Mr. Corey's Little Fidget bond was not a revenue bond in the accepted

## OUT OF THE MAIL BAG

sense; that is, a bond issued by a governmental subdivision and secured by the revenues (and sometimes by the property) of a public utility or a quasi utility such as electric and gas properties or bridges and roads used by the public. Private corporations do not issue revenue bonds, although in reorganizations, bonds bearing contingent interest are sometimes issued, but these are in no sense revenue bonds.

Mr. Corey says that United States bonds are revenue bonds. This is not true inasmuch as they are supported by the taxing power of the government and are not dependent on revenues from income-producing properties.

Next, Mr. Corey says that the only security underlying revenue bonds is the revenue of the project which issued it. In the first place, revenue bonds are not issued by a project but by a governmental subdivision; and, in the second place, revenue bonds are often secured by mortgage on tangible property. In fact, in some states, a mortgage is mandatory.

Revenue bonds, says Mr. Corey, are subject to no form of regulation such as is the case with other bond issues. This is a rather broad statement inasmuch as certain states require the filing of certain information on revenue bonds which they do not require to be filed on tax-secured bonds. Mr. Corey's statement that the SEC has no power over such issues overlooks the fact that § 17 of the Securities Act of 1933 applies to them. As to Mr. Corey's statement that there is no way for the average investor to distinguish between a sound and an unsound security of this kind, he overlooks the fact that most revenue bonds are payable from the revenues of properties having established record of earnings.

"No revenues, no dividends," Mr. Corey says, overlooking the fact that revenue bonds bear interest and that there are no stockholders to receive dividends, any balance of net revenues after interest and principal payments on revenue bonds accruing to the political subdivision issuing them.

—T. L. BAILEY,  
Otis & Co., Cleveland, Ohio.

## Bouquet for Mr. Ellis

I HAVE read with great interest the articles on the internal conflict within REA by Judson King and Clyde T. Ellis in the July 8th and July 22nd issues, respectively, of PUBLIC UTILITIES FORTNIGHTLY. It seems to me, however, that both articles overlook or pass too lightly over the real issue—whether the rural electric co-ops are going to continue to be tied to the apron strings of the Federal government, or strike out to be self-supporting units in our American economic picture. In other words, it really isn't so important what Messrs. King and Ellis think of each other or whether Harry Slattery stays on or leaves the helm of REA.

But if it is to be our permanent policy to have Federal REA continue to dominate the co-ops throughout the payment of their loans and even afterwards—that is something else again, and a mighty serious issue. Critics of the co-op movement say it cannot thrive in competition with capitalism (except for certain simple, elementary enterprises), that it tends to become absorbed by private enterprises, just as the thousands of farmer mutual telephone companies were absorbed by the telephone industry during the early decades of the present century. Friends of the co-op movement say they can survive if let alone and dealt with fairly.

But if the strong hand of Federal patronage, subsidy, etc., is never to be withdrawn from propping up the rural electric co-ops—if they will never get the chance to show what they can do by themselves, without tax exemption and other favors—then we'll never know the answer. We'll just go right on paying for another "experiment." If Mr. Ellis really stands for co-op independence, I'm for him. While it would probably be too much to expect the NRECA to forego its opportunities for lobbying for co-ops, his idea about need for more independence for the co-ops is a big step in the right direction.

—WILLIAM L. ROGERS,  
Churchton, Md.

**"W**E have 6 per cent of the world's population in the United States, and yet we generate and use more than one-third of the electricity used throughout the world. The capacity of the generating plants of the United States exceeds the combined capacity of the generating plants of Germany, Italy, and Japan, including the plants in those areas of other countries that the Axis dominates. Approximately seven-eighths of the electric service in the United States is supplied by electric operating companies and one-eighth by government-owned electric utilities."

GROVER C. NEFF,  
President, Wisconsin Power & Light Company,



## Wire and Wireless Communication

**T**HE special committee of the House of Representatives investigating the Federal Communications Commission was scheduled to resume its hearings August 9th. Chairman Cox of the House group had previously announced that business sessions would begin in New York city under the supervision of two members of the committee, Representatives Hart, Democrat of New Jersey, and Wigglesworth, Republican of Massachusetts.

Developments at the New York city inquiry were expected to cover alleged use of improper tactics by the FCC in regulating a number of radio stations handling foreign language broadcasts, particularly Italian language stations. It was expected that evidence dealing with the relationship between the FCC and the Office of War Information Foreign Language Branch on such foreign language broadcasts would be highlighted.

\* \* \* \*

**T**ESTIMONY was presented on August 4th in New York before a section of the investigating committee purporting to show that the wishes of the Federal Communications Commission, even in a matter over which the commission had no jurisdiction, were sufficient to cause a Chicago broadcaster to dismiss three announcers and later lose business worth \$18,000 a year.

Testimony concerning the incidents was obtained by Eugene L. Garey, counsel to the subcommittee which is sitting in the U. S. Court House in New York city. The witnesses were Gene T. Dyer,

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operator of stations WSBC, WAIT, and WGES, foreign language stations, and his brother, Dr. John A. Dyer, who manages WGES and WSBC.

The dismissed announcers were Stephano Luotto, Lucca Alfidi, and Remo Conte, according to the witnesses. Mr. Luotto had been broadcasting daily in the Italian language for five years, under the sponsorship of a macaroni manufacturer, when on November 2, 1942, he was told he could not continue his program. Mr. Dyer said he had been led to believe that the FCC had strong reason to consider that Mr. Luotto had been linked with Fascists.

Under the questioning of Mr. Garey, Mr. Dyer said he had no personal reason to suppose that Mr. Luotto's broadcasts might be inimical to the war effort. He told of having received word from the Office of Censorship, which has jurisdiction over broadcasting personnel, to the effect that it did "not believe that Mr. Luotto's activities in American broadcasting would mitigate against the national war effort."

However, Mr. Dyer gave a picture of an agent of the FCC laughingly admitting that the commission had no power over station personnel, and adding a moment later that it did have licensing power.

At the time WGES was operating under a temporary license, and Mr. Dyer said he thought the dismissal of Mr. Luotto "would facilitate the granting of the license" that was being sought for permanent operation of the station.



## WIRE AND WIRELESS COMMUNICATION

THE Wisconsin Public Service Commission recently assumed jurisdiction over the question of whether the present service supplied by the Western Union Telegraph Company and Postal Telegraph Company, Inc., is reasonable and adequate, whether the service will continue to be adequate if a merger of the two companies is effected by the FCC, and whether the companies have already curtailed services without consent of the commission in violation of Wisconsin statutes.

Calmer Browy, examiner for the commission, opened hearings on July 28th and overruled objections by William E. Seward, New York city, attorney for the Postal Telegraph Cable Company, and Herman E. Friederich, Milwaukee, counsel for Western Union, that the FCC has exclusive jurisdiction on the questions involved, and refused their request for dismissal of the complaint made by the American Communications Association (CIO) Local 56, Milwaukee.

A brief filed by A. W. Richter, Milwaukee, counsel for the ACA, charged that the two telegraph companies were curtailing service as though the merger had already been effected, and that they "are reducing the already inadequate service" in violation of Wisconsin statutes, to the detriment of the residents of the state.

According to the complainant's brief, Postal had abandoned four branch offices in Milwaukee without consent of the commission, and made other curtailments in service on the Postal wires, forcing citizens to use Western Union service, which it said is 20 per cent higher on intrastate messages than is Postal.

"Through this transfer of traffic and being forced to use Western Union because of abandonment of facilities on the part of Postal, the public of Wisconsin inevitably will have a 20 per cent rise in rates for much of their telegraph business," the complainant's brief read.

Counsel for the telegraph companies asserted that the closing of the branches in Milwaukee was not a curtailment of service, since they were merely substations for the receiving of messages, and

that the public still had full access to telegraph facilities. "At no time has Western Union ever abandoned any service to any community or district without having the approval of this commission, although we have always felt that such permission was not required because the Federal act supersedes the state act," Friederich said.

Counsel for both of the telegraph companies protested the assuming of jurisdiction over questions regarding the merger by the state commission, asserting that the FCC has exclusive jurisdiction, and that possibilities of merger would be forestalled indefinitely if each of the 48 states were to hold independent hearings on the question.

\* \* \* \*

COMMISSIONER R. Frank Morgal of the Pennsylvania Public Utility Commission recently denied reports that he and the other two PUC majority members—Chairman John Siggins, Jr., and Ralph W. Thorne—had decided definitely to drop a proposal to cut Bell Telephone rates by about \$1,300,000 a year. Commissioner Thomas C. Buchanan, however, declared that he would neither confirm nor deny the reports.

Disclosing that the commission would confer with Bell officials early in August, Commissioner Morgal said: "No decision has been reached in the matter. We are considering how much—if anything—should be passed on to the subscribers."

\* \* \* \*

DECISION on an application to enjoin the sale of the Keystone Telephone Company of Pennsylvania, which operates in Philadelphia and South Jersey, to New Jersey Bell Telephone Company and Bell Telephone Company of Pennsylvania was reserved last month by Vice Chancellor Alfred A. Stein.

The application was made by Jay Carton, of New York, owner of 150 shares of preferred stock of Telephone Securities, Inc., holder of the Keystone common stock. Mr. Carton's counsel, Samuel Weitzman, argued the directors of Telephone Securities, Inc., had no right to

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vote for the sale, which would not, he said, provide sufficient funds to pay the owners of Keystone common stock and thus would wipe out the assets of Telephone Securities.

Waldron M. Ward, counsel opposing the application, told the court New Jersey Bell Telephone had offered to pay \$10 a share for the preferred stock of Telephone Securities. Keystone common stock, he added, had never paid any dividends.

During the argument, Mr. Stein suggested to counsel that they try to reach an agreement under which Mr. Carton would sell his holdings. Mr. Stein said while he was not deciding the case, he did not wish to enjoin the sale if some other remedy could be found.

Mr. Weitzman described the Keystone Company as the last competing telephone company in the country.

\* \* \* \*

THE August issue of the magazine *Fortune* contains an article dealing with the economic and political complications of television, as distinguished from technical problems.

"Technically," the *Fortune* article states, "television has been ready to make a start for over five years—not in a perfect state by any means, but improving rapidly as the war closed in. . . . At the point that the war immobilized civilian television, the U. S. television picture was a flickerless image, synchronized at 39 frames per second and 525-line definition, by authority of the Federal Communications Commission. . . . Exactly what the war developments will do to this image is largely in the realm of military secrecy and conjecture."

Citing television's contribution to radar, which "undoubtedly will have some contributions in return," *Fortune* continues:

What can be solidly predicated upon the war is that all of this work in the ultra-high frequencies will advance television techniques, and particularly television relays.

In a brief review of television's recent past, *Fortune* points out that industry disagreement over standards, the FCC's

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"plain and fancy muddling," the opposition of "financial groups with heavy investments in present forms of communications, threatened by technological change; and Hollywood, whose whole structure may be made over by television," and the rise of FM, which found itself "in the anomalous position of being forced to fight television for space," combined to delay television's commercial debut almost up to America's entry into the war.

Today, with the slate wiped clean by war, the article continues, "there is a score of industry spokesmen who recognize that now is the golden opportunity for reevaluating all developments and soundly preparing for the future. But there are still the clawing factions . . . a big broadcasters' group that seems ready to use television as a counter in corporate strategy to hem in FM in the spectrum to maintain the status quo in radio. . . . There is, counterwise, an FM group that is disposed to push FM ahead of television."

\* \* \* \*

DESPITE the increased strain placed upon its manufacturing facilities by the U. S. Maritime Commission's 1943 schedule of shipbuilding, the Federal Telephone & Radio Corporation, manufacturing affiliate of the International Telephone & Telegraph Corporation, has kept pace with the program and provided the new marine radio units for the Victory Fleet, according to a statement by E. G. Ports, radio communications division manager of the company.

Mr. Ports said the new one-piece unit for ships was of intricate design and ordinary mass production methods could not be applied to its construction, but that by "diluting the job for unskilled workers" the company had stepped up production. "Thus, by breaking down the task into simpler sectional processes," Mr. Ports added, "we are able to use our highly skilled workers on parts that require their attention, and leave the balance for the unskilled workers."

According to Mr. Ports, the marine radio unit "provides a single unit for our

## WIRE AND WIRELESS COMMUNICATION

Liberty ships which contains all the radio communications equipment required by law."

\* \* \* \*

THE Western Union Telegraph Company and RCA Communications, Inc., have agreed on division of international traffic in connection with a plan for merging the Western Union and Postal Telegraph companies. This was disclosed at a hearing on the merger before the FCC, but Chairman Fly blocked attempts to put evidence concerning the agreement into the record.

RCAC operates entirely in the international field, with domestic offices in only three cities. Elsewhere Western Union offices handle RCAC traffic. Through a long-standing agreement, Western Union turns over to RCAC two foreign destination messages for each nine foreign-originated messages which RCAC turns over to Western Union for delivery in the United States. RCAC had asked the commission to order a division formula more favorable to it, and the commission asked the companies to try to work out a plan. Frank B. Warren, general counsel of RCAC, stated recently that so far as the companies are concerned they are in agreement.

\* \* \* \*

FINAL terms of the agreement under which the Radio Corporation of America will sell its Blue Network to the McGraw-Noble interests for \$8,000,000 were worked out late last month, and an application for approval of the deal was to be filed with the Federal Communications Commission shortly thereafter.

James L. Fly, chairman of the Federal Communications Commission, went to New York to discuss the sale and its terms with the principals involved—David Sarnoff, president of Radio Corporation of America, James H. McGraw, Jr., president of the McGraw-Hill Publishing Company, and Edward J. Noble, chairman of the Life Savers Corporation. The Blue Network had previously been operated in conjunction with the

National Broadcasting Company, an RCA subsidiary, but the FCC ordered a divorce of the Blue and Red networks "in the public interest."

An additional phase was projected into the proposed acquisition by the McGraw-Noble interests of the Blue Network, however, since Mr. Noble also owns radio station WMCA. It was learned that the FCC would not sanction the ownership of two stations in one city by the same individual. In acquiring the Blue Network, Mr. Noble would have control over station WJZ, mainspring of the Blue Network, and therefore would have to dispose of WMCA. Operation of two stations in one city by identical interests, according to an official of the FCC, "would run counter to our policies."

Sale of the Blue Network would culminate months of negotiations between various interested buyers and the RCA management. In addition to the McGraw-Noble interests, two other major groups were in the bidding up to the last minute—the investment banking house of Dillon, Read & Co. and the Mellon interests of Pittsburgh and Marshall Field, Chicago financier and publisher.

\* \* \* \*

WAGE increases of from \$3 to \$5 a week were awarded on July 31st by the National War Labor Board to approximately 500 maintenance workers in the plant department of the Pacific Telephone & Telegraph Company to bring their rates up to 15 per cent above their January 1, 1941, wage level as provided in the WLB "Little Steel" formula. These workers are employed in toll maintenance work in California and Nevada. They are represented by the American Communications Association (CIO). The wage scale resulting from the board's order will range from a starting wage of \$23 a week to \$60 a week after eight years. The union's request for a reduction in the length of the progression schedule was referred to the company and the union for renegotiation. The union's request for an increase in the night shift differential was denied.



# Financial News and Comment

By OWEN ELY

## *Federal Taxes Increased Nearly One-half in 1942*

**D**ESPITE some special concessions to the utility industry in the 1942 tax law, the utilities bore a staggering increase in Federal taxes last year, as indicated in the accompanying table. American Telephone and Telegraph showed a gain of 80 per cent, while the electric and gas holding and operating companies listed in our table showed an average increase of 48 per cent.

The figures for all electric utility companies compiled by the Edison Electric Institute showed a gain of 46 per cent for Federal income and excess profits taxes in 1942. State and local taxes were unchanged while miscellaneous Federal taxes increased only 6 per cent. The institute pointed out that "taxes now take almost one dollar out of every four collected by the electric utility companies from consumers. . . . The government has become the senior partner in electric utility enterprises and now takes in taxes more than is received either by labor or by the owners of the property."

It is difficult to compare the results for the utilities with those of other industries since industrial group tabulations are not yet available. However, following are the percentage changes for some large industrial companies:

U. S. Steel .....	31%
*General Motors .....	D55
*Standard Oil of N. J. ....	D19
Phelps Dodge Corp. ....	64
General Foods .....	63
*U. S. Rubber .....	D39
National Dairy .....	105
E. I. duPont de Nemours ..	D8

D—Decrease.

\* Includes foreign government income taxes.

Many industrial companies were able to register substantial foreign losses in 1942, or use other means to obtain decreases in taxes. The utility companies (with one or two minor exceptions) could not use this device, and practically every important utility showed a very heavy increase in Federal taxes, resulting in a substantial cut in income available for security holders.

**T**ECHNICAL provisions of the 1942 Federal tax act resulted in a wide range of percentage increases for the year 1942 as compared with 1941. As indicated in the table, a few holding companies such as American Power & Light, Associated Gas, and Standard Gas got off rather lightly with gains of only 20-30 per cent in their Federal tax bill, while American Telephone reported an 80 per cent gain and Niagara Hudson Power 117 per cent. In the operating company group there were still wider variations, with Commonwealth Edison and Consolidated Edison showing moderate increases while Detroit Edison, Peoples Gas, and Consolidated Gas of Baltimore had large gains in taxes.

The fact that corporation taxes remain unchanged for 1943 should afford the Treasury Department and the utility industry a breathing spell to gauge the effects of the present law. Obviously, the Federal tax burden borne by the utility industry is out of all proportion to the burden borne by stockholders in other industries. In 1942 total taxes of the electric utility companies aggregated \$628,000,000 according to the Edison Electric Institute compilation, while net income available for common stockholders was near \$370,000,000.

# FINANCIAL NEWS AND COMMENT

## FEDERAL INCOME AND EXCESS PROFITS TAXES 1941-42\* (000 omitted)

Holding Companies	1942	1941	Incr.
American Tel. & Tel. ....	\$190,571	\$105,668	80%
American Gas & Electric .....	17,310	10,279**	68
American Power & Light .....	16,356	12,852	27
American Water Works .....	10,411	6,808	53
Associated Gas & Electric .....	9,061	7,513	20
Cities Service P. & L. ....	8,816	7,388	33
Columbia Gas & Electric .....	20,174	15,082	34
Commonwealth & Southern .....	32,258	20,896	55
Electric Power & Light .....	17,704	10,898	62
Engineers Public Service .....	11,026	6,467	70
Middle West Corp. ....	9,683	7,310	32
National Power & Light .....	14,872	8,523	75
Niagara Hudson Power .....	13,002	6,014	117
North American Co. ....	18,220	12,318	48
Public Service of New Jersey .....	23,341	15,763	48
Standard Gas & Electric .....	11,646	9,051	28
United Gas Improvement .....	17,129	11,263	51
United Light & Railways .....	10,400	6,830	52
Operating Companies			
Boston Edison .....	5,091	3,140	62
Commonwealth Edison .....	19,466	17,818	10
Consolidated Edison Co. of N. Y. ....	16,840	15,025	12
Consolidated Gas of Baltimore .....	5,933**	2,312	158
Detroit Edison .....	11,550	5,275	119
Pacific Gas & Electric .....	14,850	10,791	37
Southern California Edison .....	9,656	5,150	88
Peoples Gas .....	6,579	2,577	154
	\$350,879	\$237,343	48%

\* In a few cases miscellaneous Federal taxes may be included; parent company's income tax not always included; debt retirement and postwar tax credits deducted in 1942.

\*\*Includes amount in lieu of taxes, representing tax saving due to refunding or other factors.



In the first quarter of 1943, according to figures compiled by the FPC, there was a further gain in taxes of 16 per cent over 1942—excess profits taxes increasing 74 per cent while income taxes were down 14 per cent. However, these figures may reflect 1942 taxes based on the 1941, rather than the 1942, law.

### Electric Output and Earnings

OUR departmental chart on electric output and earnings was discontinued over a year ago because of lack of reliable data on gross revenues and net income. (*The New York Times* seasonally adjusted chart of electric power production has been subsequently reprinted from time to time.) Now, however, the Federal Power Commission's

compilation of current earnings of all class A and B utilities is available in the monthly bulletins, which are on a reasonably up-to-date basis. We therefore present a new chart, showing on a uniform logarithmic scale for 1926-42 the yearly figures for generating capacity and electric power production for all power plants, including municipal, government, and miscellaneous, together with earnings figures and the Federal Reserve business index.

Maximum potential generating capacity was obtained by multiplying reported kilowatt capacity by the number of hours in the year. The resulting kilowatt-hour figure, while entirely a theoretical measure of potential output, is interesting because it affords a method of comparing changes in capacity with changes in production.



## PUBLIC UTILITIES FORTNIGHTLY

It is obvious, from a glance at the chart, that more intensive use of the national utility network is currently being made than in former years, due to the development of interconnection facilities, the operation of war factories on a 24-hour basis, etc. Formerly less than one-third of theoretical capacity was in use; now the figure is approaching one-half.

**C**OMPARISON is also afforded between electric power production and the general level of industrial output as measured by the Federal Reserve index (revised series). The relative trends for the period 1926-39 indicate the rapid growth of residential lighting as a factor, since power output increased 75 per cent compared with 12 per cent for manufacturing production. Since 1939, however, electric output gained only 62 per cent compared with 86 per cent for production. (By coincidence, in the twelve months ended June 30th power production was 201,000,000,000 kilowatt hours while the Federal Reserve index stood at 201.) Obviously, residential and commercial lighting have not expanded much during the war period so that the overall figure has not had to keep pace with the business index.

All of the utility data for 1926-42 are obtained from the Edison Electric Institute *Statistical Bulletin* No. 10. (FPC financial data is available only since 1937.) In order to facilitate extending the chart on a uniform basis the interim monthly figures available in the FPC bulletins are charted on a "twelve months ended" basis, and the Federal Reserve index has also been converted to a twelve months' moving average, similar to the averages for previous calendar years. A difficulty presented itself in extending the two earnings lines, since the FPC figures are made up on a slightly different basis than the EEI. In order to preserve the continuity of trend, the FPC monthly figures for 1942-43 have therefore been adjusted by applying multipliers based on the relation between the two sets of figures in recent years. Thus it was found that the Edison revenue

figures during 1939-42 averaged 95 per cent of the FPC figures, and hence the latter are reduced 5 per cent; similarly, since the Edison figures for net income have been running uniformly 2 per cent above the FPC totals, we have made a similar adjustment for the monthly net income figures.

The chart indicates that in the old-fashioned "normal" year 1926 the utilities were able to retain for preferred and common stockholders 28 cents out of every dollar. (In 1929 the figure advanced to 32 per cent.) In 1942, however, stockholders retained only 19 cents. Another point which the chart illustrates is that while kilowatt-hour output for all plants has increased 168 per cent, the electric revenues of private utilities have increased only 90 per cent since 1926.

### *American Water Works & Electric Company*

(Twelfth in a series of articles on holding companies.)

**A**merican Water Works & Electric obtains about 69 per cent of revenues from electric sales, 22 per cent from water service, and 9 per cent from railway, bus, and miscellaneous operations. The water system, with 1942 revenues of over \$15,000,000, consists of a large number of companies controlled directly or through subholding companies. The principal electric and traction companies (with aggregate revenues of \$54,000,000) are controlled as follows:

	1942 Revenues (Millions)
West Penn Electric Co. (holding)	
Potomac Edison Co. ....	\$11
West Penn Power (operating & holding) .....	28
Monongahela West Penn Public Service .....	14
West Penn Railways .....	1
	<hr/> \$54

American Water Works was the first important holding company to submit an integration plan to the SEC. Such a plan, which was filed in August, 1937, sought

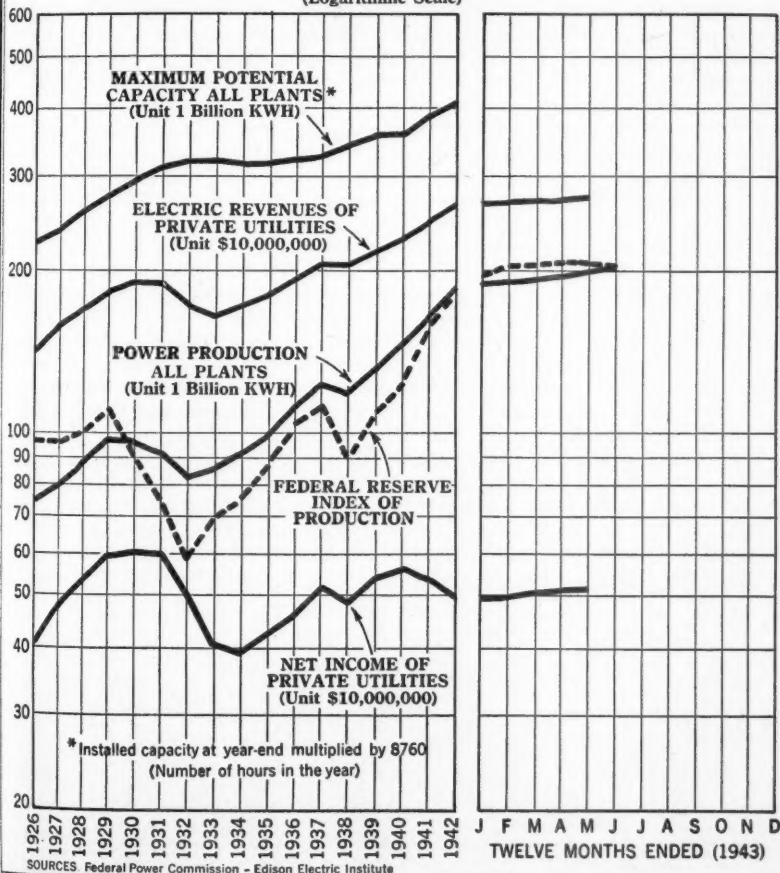
## FINANCIAL NEWS AND COMMENT

to establish that (1) the electric subsidiaries constituted a single integrated utility system, (2) the water, coal, and appliance companies could be retained as "reasonably incidental, etc.," (3) the electric railway, bus, and bridge companies could also be retained, and (4) the plan of reorganization and simplification was fair and equitable. The plan provided for elimination of West Penn Electric through calling of all outstanding securities in the hands of the public, with all assets transferred to American Water

Works. Changes in the ownership of certain smaller electric subsidiaries was also suggested. Financing to the extent of \$51,000,000 was proposed in order to retire West Penn Electric's securities in the hands of the public (\$5,000,000 debenture 5s and 342,898 shares of preferred and class A stock), for repurchase by West Penn Electric of the common stock of Monongahela West Penn (which had been sold by it to West Penn Power in 1932), and for further equity investment in subsidiaries.

### ELECTRIC OUTPUT AND EARNINGS 1926 - 1943

(Logarithmic Scale)



## PUBLIC UTILITIES FORTNIGHTLY

Hearings were held in September, and in December, 1937, an SEC order was issued which in effect passed favorably upon the four principal items listed above. The commission reserved decision with respect to retention of the interest in American Communities Company system; it desired the elimination of the company as an intermediate holding company, and recapitalization or reorganization of the Community Water Service Company system. Several minor properties—farming and real estate interests—were ordered disposed of.

**T**HE commission also held that the distribution of voting power in the company and its subsidiaries was not fair and equitable, but gave the company a reasonable time to effect changes. The commission did not pass on the financing plan to raise \$51,000,000. (American Water Works had apparently been hopeful of issuing convertible bonds or additional stock, but market conditions interfered.) In general, however, the company gained a clean bill of health and was assured that it need not fear the "death sentence" provisions.

Some minor steps have been taken to carry out the 1937 program, principally relating to changes in ownership of some of the smaller electric properties, sale of outside interests, etc. One issue not taken care of in the original plan was that of the services rendered to water subsidiaries by American Water Works and other system companies. After discussions with the SEC, the company decided to set up a new subsidiary service company to comply with commission

standards. Hearings on the proposed plan were held in April.

System capitalization is approximately as follows:

	Mil- lions	Per Cent
Subsidiaries—Long-term debt	178	47
Preferred stock .....	90	24
Minority interest .....	2	1
American Water Works—		
Long-term debt .....	11	3
Bank loan due May 1, 1944	6	2
\$6 preferred stock .....	20	5
Common stock & surplus (2,343,105 shares) .....	66	18
	373	100

**T**HE present system plant account, less depreciation, amounts to about \$330,000,000 and after potential write-offs estimated at about \$30,000,000, the net figure would be \$300,000,000. To this amount could be added about \$6,000,000 miscellaneous investments and \$10,000,000 net working capital, making a total of \$316,000,000. On this basis the common stock has an equity of \$9,000,000 or about \$4 a share; before write-offs the figure is \$17 a share.

Earnings in the past decade are shown in table below.

Of the parent company's total income in 1942 (\$3,697,343) about 72 per cent was received as dividends, 8 per cent as interest, and 20 per cent as commissions, fees, and miscellaneous. The system's increase in gross, which amounted to nearly 10 per cent, was largely absorbed by increased Federal taxes and larger depreciation charges. (Expenses other than maintenance increased only moderately.) In the first quarter of 1943 a slight im-

	No. Times Fixed Chgs. Earned	No. Times Chgs. & Pfd. Div. Earned	Earned per Share Consolidated	Common Parent Co.
1942 .....	1.25	1.16	\$1.06	\$1.13
1941 .....	1.26	1.16	1.11	.47
1940 .....	1.29	1.19	1.21	.41
1939 .....	1.22	1.14	.95	.52
1938 .....	1.14	1.05	.38	.09
1937 .....	1.26	1.17	1.14	.82
1936 .....	1.30	1.21	1.52	.40
1935 .....	1.22	1.18	1.32	.57
1934 .....	1.19	1.10	1.03	.78
AUG. 19, 1943		234		

From "SOURCES"

## FINANCIAL NEWS AND COMMENT

provement over last year was registered, common share earnings amounting to 19 cents as compared with 16 cents in 1942.

### "Canned Testimony" Speeds Case

IN an attempt to streamline hearing procedure before its trial examiners, the Securities and Exchange Commission recently permitted, for the first time, introduction of "canned testimony." Within the space of five minutes, it was reported, testimony given by Philip A. Fleger, senior vice president of the Standard Gas & Electric Company, that would have required two full days to present orally was placed in the record of the company's recapitalization plan.

The testimony of Mr. Fleger, also general attorney for the Philadelphia Company and all of its subsidiaries, was prepared in advance and submitted to the stenographers in mimeographed form. Copies of Mr. Fleger's direct testimony had been supplied to all interested parties at least ten days before, enabling them to familiarize themselves with it and to proceed immediately with cross-examination of the witness before Richard

Townsend, commission trial examiner.

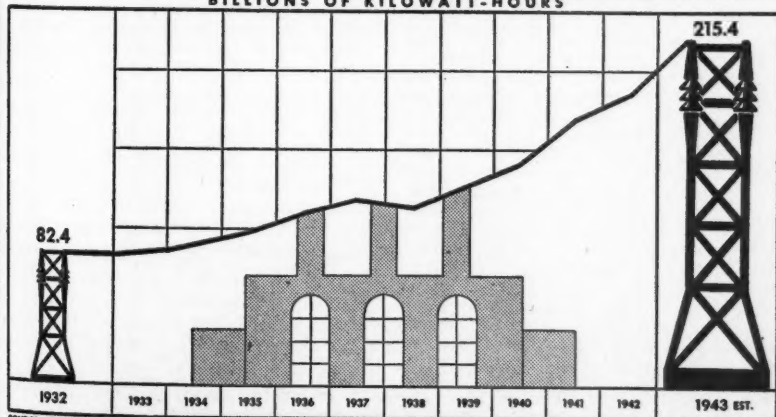
Credit for the idea of employing "canned testimony" was given to Mr. Townsend, who obtained the approval of the SEC to test the method as a means of cutting days, if not weeks, from extended hearings on complicated cases. If the experiment proves successful, the commission is expected to make the presentation of "canned testimony" stock procedure in such matters in the future.

### Public Utility Valuation

THE *Journal of Commerce* on July 26th issued a special 44-page tabloid supplement without advertising, entitled "Public Utility Valuation—the Issues at Stake and the Consequences." The twenty articles were grouped under the following headings: Principles of Utility Valuation, Utility Valuation and Practice, and Valuation Policy Effects. (See page 236.) This comprehensive review of the various phases of utility valuation is of particular interest at this time, when the efforts of the FPC, the SEC, and some of the state commissions to cut utility plant accounts "to the bone" are coming to a head.

## PRODUCTION OF ELECTRIC ENERGY AT ALL TIME HIGH

BILLIONS OF KILOWATT-HOURS



SOURCE: U. S. DEPARTMENT OF COMMERCE

GRAPHIC BY PEX-6

From "The Exchange"



# What Others Think

*Journal of Commerce* Publishes  
Compendium of Utility Articles



A CORPS of experts in various branches of the public utility field has presented an illuminating and comprehensive analysis of the effects on the industry of utility regulation and attempts to adopt the original cost theory of determining a rate base.

The study is presented in a "Public Utility Valuation" supplement of the *Journal of Commerce and Commercial of New York* for July 26, 1943.

An introductory article by Jules I. Bogen, editor of the publication, noted that government regulation of business has been extended on an unprecedented scale during the past decade. He said that "because what is being done to the public utilities today could well become the general regulatory policy of government over all industry at some later date, as well as because of the importance of sound utility regulatory policies in themselves," his publication prepared the special issue. Mr. Bogen continued:

The basic issue in public utility regulation today is whether this industry shall henceforward be limited at best to a low rate of return on the "aboriginal" cost of its physical properties, no matter how efficiently a utility enterprise may have been promoted, managed, and financed. The rulings of the Federal Power Commission in rate cases affecting companies subject to its jurisdiction, the decisions of the Securities and Exchange Commission under the Public Utility Holding Company Act, the stand taken by a number of state commissions that have been influenced by these Federal agencies and the newer uniform classification of accounts issued by the National Association of Railroad and Utilities Commissioners would limit the rate base of public utilities to the dollars originally "prudently" invested in their property by the first person devoting it to public use.

Mr. Bogen briefly outlined the early methods of acquisition of small plants by the larger companies and their integra-

tion into systems that produced power on a large scale and more cheaply. He pointed out that it was often necessary to pay considerably more than original cost for them. He said:

Why did investors provide the capital needed to buy these local utility properties at more than original cost, and large amounts of additional funds to reconstruct and integrate these smaller enterprises into a large system providing better service at lower rates? Because they expected that if these utility systems were soundly conceived and well managed, and they succeeded in reducing the rates charged consumers, regulatory commissions would be glad to allow a reasonable return on the fair value of the integrated, efficient enterprise thus brought into being.

It is now proposed that these expectations shall be denied owners of utility property retroactively. At best, they are to be limited to a moderate rate of return on the "aboriginal cost"; that is, the investment made not by the present owners of the property, but by those who built the small local utilities that were acquired by the present owners to create the more efficient and more economical, integrated enterprise they have brought into being. If any part of this investment is found, with the wisdom that always comes after the event, to have been "imprudent," that part of the aboriginal cost will be ruthlessly cut out of the rate base.

MR. BOGEN added that involved here is nothing less than the virtual abolition of the profit motive as it exists elsewhere in the national economy, paving the way for socialism. He pointed out that the utility industry is still in its major growth stage and that new capital will be slow to enter an industry in which the investor cannot obtain a fair return on the value of his investment. He added that the aboriginal prudent investment basis of valuation is clearly unattractive to investors. Declaring the problem of utility valuation is one of many facets Mr. Bogen said:



## WHAT OTHERS THINK

The economic phase calls for the formulation of valuation policies that will attract capital to the industry in adequate amounts so that expanding demands of consumers can be satisfied and the industry kept abreast of progress in the art. At the same time rates to consumers should be held as low as is consistent with this basic objective.

The legal phase of the valuation problem is concerned with the formulation of principles to guide the courts in passing upon rate rulings of regulatory commissions. More and more, this becomes a question of determining where the supervision of the courts ends and the discretion of the regulatory commissions begins. The trend of recent court decisions has been toward giving more discretion to administrative agencies, not only in this field but everywhere. . . .

The valuation problem also has important engineering aspects. The engineer is concerned with providing adequate service at low rates. Sound valuation is indispensable to this end, he knows, if the industry is to be operated by private enterprise, rather than by municipal or Federal governments.

The accountant keeps his books and financial statements on a cost basis, as a matter of convenience and convention.

Roscoe Pound, former dean of the Harvard Law School, declared that "unchecked administrative valuation is incompatible with our American economic order." He discoursed profoundly on the principle that today there is a cult of force, a turning to absolute ideas of government throughout the world, and pointed to the danger of administrative absolutism. He emphasized in this connection the tendency of administrative bodies to replace the judiciary and the law in the exercise of its legislative authority. Explaining, he said:

Valuation of public utilities affords an excellent illustration of what committing such a subject to administrative determination free from judicial review would mean.

Administration characteristically treats each case and each situation as unique. But the economic order calls for predictability and uniformity. Except as relations are adjusted and conduct is regulated by systematic application of authoritative rules and principles in accordance with an authoritative technique—in other words, by courts according to law—nothing can be done with assurance which involves any large investment or expenditure of money or labor or which extends over any long time. As utilities depend upon the rates they may charge and those rates depend upon valuation, a policy which puts valuation at large as something not pre-

dictable by reference to principles of general application, but left to be arrived at as a unique determination for each case, with no legal restraint to insure that a legal measure is set up and consistently and uniformly applied, must in the end break down the system of privately owned and operated utilities. Valuation on legal principles, legally assured by judicial review to require adherence to those principles, has for its alternative ownership and operation by the government. Unchecked administrative valuation is incompatible with our American economic order.

To cut off from the province of the judiciary scrutiny of official action involving individual rights in a field of such importance is to break with the most characteristic of American institutions, the one outstanding American contribution to politics; namely, the constitutional democracy under which all the powers of politically organized society are exercised by officials and agencies subject to the law of the land.

THOMAS NIXON CARVER, professor emeritus of political economy at Harvard, declared that government regulation is expensive, not only in money and man power, but in irritation, frustration, and repression of enterprise—to say nothing of the loss of self-reliance and initiative, when the people come to rely on government to take care of them. Commenting on various possible valuation bases, he said that there were two extremes—one being the proposal that the present value of the plant as a going concern shall be taken as the investment. He discarded this as a basis for regulation. The other and opposite extreme is the proposal that only the original investment shall be counted. He contended that the original investment seldom covered the total investment. Opposed to this, he continued, is the proposal that the total investment—that is, all the money actually spent for the building and improvement of the plant during its entire history—shall be counted as the investment on which the current rate of interest is to be permitted. This is untenable, he said, because mistakes may have been made and money spent for improvements that did not improve.

He pointed out that a reasonable basis for determining rates might be on the cost of reproducing a plant, not the exist-

## PUBLIC UTILITIES FORTNIGHTLY

ing plant but an entirely new plant of the most modern design, with the same capacity. He continued:

If we are opposed to monopolistic power it is presumably because it enables a company to charge higher rates than could be charged under effective competition. The presumption is, therefore, that rate regulation should aim to permit a public service company to charge about the same rates as could be charged under competition, or to leave the company in about the same financial position as it would be if competition were active and effective. Under such competition, as we have already shown, a company could not long charge rates so high as to earn an income which, capitalized at the current rate of interest, would give a value to the plant above the cost of reproducing it. If it charged higher rates it would simply invite competitors to build new plants to compete with itself.

Be it remembered that it is the cost of building a new plant with the same productive capacity as the existing plant that counts. Would-be competitors are not deterred from building competing plants by the sum of all moneys invested in old plants, nor the amount "prudently invested," nor by the total present value of old plants as going concerns. They will start competing whenever they figure that they can build a new plant that will earn an income which, capitalized, will equal its cost.

**JOHN R. COMMONS**, professor emeritus of economics of the University of Wisconsin, discussed evolution of the value concept, drawing the distinction between the use value and exchange value. He said that in the light of the evolution of the concept of value it is evident that efforts to value a business enterprise in terms of the original cost of the tangible assets alone is a step backwards and an anachronism. He said:

Failure to recognize the existence of a going concern, as distinguishable from physical assets, perpetrates injustice. The United States Supreme Court as long ago as 1897, in the *Adams Express Company* tax case, ruled that "whenever separate articles of tangible property are joined together, not simply by a unit of ownership, but in a unit of use, there is not infrequently developed a property, intangible though it may be, which in value exceeds the aggregate of the value of the separate pieces of tangible property." In this decision laying down the "unit rule" for corporate taxation, the court completed a transition, that had been going on for fifty years, in the meaning of property

from that of tangible property owned by individuals and held for their own use to that of a going business owned by a going concern.

**John F. MacLane**, New York lawyer and specialist in the field of public utility law and former justice of the supreme court of Idaho, made the following statement:

The recent decision of the Supreme Court of the United States in *Federal Power Commission v. Natural Gas Pipeline Company* raises doubt as to whether the historic function of the courts in supervision of the rate-making processes of administrative tribunals is to be preserved. . . . The majority of the court apparently gave regulatory commissions a free hand in the selection of the bases upon which rates should be fixed and confined the judicial function to the determination that a fair hearing was given, proper findings made, and statutory requirements satisfied, subject only to the vague limitation that the courts might intervene on "a clear showing that the limits of due process have been overstepped."

Pointing to the confusion in which the law is thrown by the Supreme Court decision in the *Federal Power Commission v. Natural Gas Pipeline Company* Case, Mr. MacLane said this point is well illustrated by the recent decision of the fourth circuit court of appeals in the *Hope Natural Gas Company v. Federal Power Commission* Case. Here the majority opinion of the court, in effect, construes the majority opinion of the *Pipeline* Case as reaffirming the classic principles of rate making under the fair value theory. Mr. MacLane said that it is his personal view that in periods of drastic price changes, either upwards or downwards, the original cost, unless equated by some general price level factor or compensation in the rate of return, cannot economically control public utility rates any more than it can control the prices of what are generally considered private products or services. Mr. MacLane concluded:

If the legislative determination is conclusive upon the courts upon constitutional review, no true judicial function is left remaining and the court is relegated to the position of a mere *ex post facto* moderator or referee to determine whether the rules of order of the prize ring were followed. This is apparently the position to which the minority

## WHAT OTHERS THINK



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### QUESTION: HOW TO GET THE GENIE BACK IN THE BOTTLE

opinion in the Pipeline Case would reduce the court. The majority opinion on its face carries no such implications. In determining a question of confiscation, the courts have always held that the minimum limit at which a rate could be sustained was the lowest possible rate which would fairly compensate the owner of the property for his public service. But when this decision is construed by the minority as virtually abandoning all judicial tests, it at least implies a threat of

the abrogation of effective application of the due process clause to the protection of property rights, and specifically the interest of investors in public utility securities.

**A.** J. G. PRIEST, member of the firm of Reid & Priest and general counsel for Electric Bond and Share and other utilities, held that the *Smyth v. Ames* Case has served the nation well. He pre-

## PUBLIC UTILITIES FORTNIGHTLY

sented for consideration the following, which he termed a workable valuation ruling:

In many of the Federal courts, recent decisions have indicated an extreme reluctance to lay judicial hands on the orders of administrative tribunals. There will, of course, be regulatory orders which give such violent offense that the courts will interfere, but the public utility investor probably must look to legislative rather than judicial remedies.

Judged on the basis of its product—our existing public utility industry—as distinguished from certain of its by-products, the formula of *Smyth v. Ames* has served the nation well. It may well be, however, that, in the search for a more workable valuation rule, the use of price trends has not yet been sufficiently explored. As already indicated, both the majority and the dissenting opinions in the *Chesapeake & Potomac Telephone Company Case* hold out some hope in that direction and, with the cooperation of public utilities and regulatory agencies in giving reasonable attention to available, actual, current cost data as such data exist and come into being over the years, it should be possible to evolve and apply current construction cost indices which will reflect, with substantial accuracy, both changes in price levels and the current market value of physical property.

R. C. Thurston, Jr., manager of the accounting firm of Price, Waterhouse & Co., commented as follows:

Restatement of utility properties on the basis of original cost to the person first devoting the property to public service may eventually simplify for regulatory commissions the matter of rate regulation, but such a restatement (almost uniformly downward) can only work to the disadvantage of the present investor whose interest is in the present enterprise rather than in the cost of the property to companies which may have been bought out or merged many years ago.

William D. Ennis, professor of engineering economics at the Stevens Institute of Technology, said:

The utilities are in the expanding stage. If this expansion is to be the natural fruition of an enterprise system, fair opportunity for profit must exist. Otherwise public utility development will be governmental. From this it is a short step to complete governmental domination of the field, and no doubt of other fields as well.

Francis S. Haberly, consulting engineer specializing in utility problems, declared the cost of reproduction of public

utility property can be fairly and reasonably determined in every case. He said it is a competent engineer's best estimate of probable cost, prepared as would a contractor seeking a construction job.

Dean John T. Madden, of the School of Commerce, Accounts, and Finance, New York University, said more progressive regulatory commissions are giving recognition to the war-time inflation of commodity prices and the likelihood that after the war the commodity price level will be substantially higher than before. He added that realistic public utility regulation must formulate a program which will recognize the increase in value of public utility properties that would accompany a general rise in the price level, so that utility investors would not be placed at a severe disadvantage by comparison with investors in other industries, and the flight of capital from this basic and essential industry will not be brought about.

**O**WEN ELY, utility analyst with Shields & Co. and financial editor of *PUBLIC UTILITIES FORTNIGHTLY*, asserted:

While the administration pays lip service to the desirability of the capitalist order, a war of attrition has in fact been waged against that system in the utility industry. . . . Risk capital is urgently needed (for replacement of inefficient generating facilities) but without hopes of receiving a fair return on the "fair value of the investment" they make, it will be hopeless to expect equity capital to be forthcoming in substantial volume.

Sherwin S. Badger, assistant treasurer of the New England Mutual Life Insurance Company, speaking from the point of view of the institutional investor, said:

The ridiculousness of the original cost theory would be readily apparent if it were applied to real estate instead of to public utilities. Not an owner nor a mortgage holder in any building over thirty or forty years old would be entitled to collect a cent of income if the Federal Power Commission rule held sway since the original cost less the amounts that should have been charged for depreciation would by now have reduced values to either zero or negative quantities.

In the final analysis the fundamental and most serious charge against the original cost theory is that it violates the basic tenet of

## WHAT OTHERS THINK

capitalism, which is that the hope of profits, tempered by the fear of loss, is the most practical system yet devised to spur the great majority of men, generation after generation, to their best and wisest effort. The removal of the profit incentive, inherent in the original cost doctrine, will not only stifle creative enterprise, it will put a premium on incompetence, inefficiency, and the status quo. Fortunately this theory is not yet the law of the land. It must not be allowed to gain further headway and nobody in the country has a greater stake in its defeat than the institutional investors of the country.

Luther R. Nash, associated with the Stone & Webster organization for many years, and now a private consultant, said:

Aboriginal cost has occasioned much confusion and grief. All electric and gas companies subject to these new systems of accounts (prescribed by the FPC in 1935) are being required to rewrite their fixed capital accounts, transferring all excesses over aboriginal cost to other accounts, the significance of which in rate proceedings is not yet clear.

—C. A. E.

## Fuel Conservation Program Urged

THE government should sponsor a vigorous voluntary fuel conservation campaign. Rationing of coal should not be adopted next winter as a means of freeing labor and materials, but rationing techniques should be developed for emergency use.

These are chief among a list of recommendations made by the fuel and utilities division of the Office of Civilian Requirements, following a survey of several months of coal supply and requirements for the 2-year period, April 1, 1943, to March 31, 1945.

Significantly, the report points out in its foreword that the recent strikes in the coal fields have resulted in a decrease in the estimated production of coal during the present fuel year, 1943-44. As against the original estimate of 610,000,000 tons of bituminous for the fuel year, the present estimate is 600,000,000—a loss of 10,000,000 tons. Estimates for anthracite production are 60,000,000 tons, as against the original figure of 65,000,000—a loss of 5,000,000 tons.

The report points out that the loss sustained through strikes will result in the need for a larger production in 1944, "a consequent necessity of retaining the labor force at a higher level, a decrease in bituminous coal inventories earlier than would otherwise have been the case, and a greater substitution of bituminous for anthracite coal."

The study shows that approximate-

ly 68.3 per cent of coal requirements is classified for industrial use, 16.7 per cent for residential use, 8.8 per cent as governmental, commercial, and institutional, 4.7 per cent as exports, and 1.5 per cent as direct military. Of the 68 per cent used by industrial consumers, the largest users are the railroads, with 20 per cent; coke ovens, with 16 per cent; and electric utilities, with 12 per cent.

It is estimated that the unrestricted requirements for coal for 1943 will be 663,379,000 net tons, and for 1944 687,922,000 tons. Stocks on hand as of March, 1943, were estimated at 100,912,000 tons of bituminous coal. Bedrock coal requirements for all consumers are placed at about 8 per cent, or 55,000,000 tons less than unrestricted requirements as estimated for 1943. Increases in the estimated requirements for coal consumption are accounted for by the shifts to coal from other fuels and increased output of coke for the steel industry, increased power generation, increased railroad activity, and expanded production of war goods.

The survey shows that to meet unrestricted requirements there must be produced 1,200,000,000 tons of bituminous and 125,000,000 tons of anthracite during the 2-year period, April 1, 1943, to March 31, 1945, after making full allowance for possible stock withdrawals and the substitution of bituminous coal for anthracite. To attain this projected volume of output with a 44-hour work week,



## PUBLIC UTILITIES FORTNIGHTLY

the study points out, employment during 1944 and the first quarter of 1945 must be held at about 405,000 men in the bituminous industry and at 78,500 men in the anthracite industry. These levels, it says, are approximately 5.8 per cent and 6.9 per cent, respectively, below current employment.

It explained also that if estimated requirements are to be met, tons of coal moved by rail must increase in the coal year 1943-44 about 7.1 per cent over the coal year, 1942-43. Shortages of cars are to be expected, but probably not in such numbers as to preclude the required increase in shipments of coal.

**A**MONG other recommendations made as a result of the study in addition to the two first mentioned are the following:

1. This year's campaign for the summer storage of coal should receive the support of the Office of Civilian Requirements.

2. In view of the growing difficulties in coal production, transporta-

tion, and local delivery, the former policy of freely substituting coal for oil and other fuels should be abandoned, and conversion policy should be subject to a continuous review of the availability of each of the fuels in various areas.

3. The currently large inventories of bituminous coal warrant substantial withdrawals during the next two years as a means of reducing the burden on railroads, local distribution facilities, and mine production. It appears advisable at this time to permit coal stocks to be reduced to minimum levels by the end of the first quarter of 1945.

4. A comprehensive zoning of coal markets is not deemed advisable at this time, but plans and studies should be developed to achieve as much elimination of waste in the transportation of coal as may be found practical.

5. A comprehensive survey should be made to determine the actual amounts of coal in the inventories of residential and commercial consumers.

—C. A. E.

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## Power Industry Due for Postwar Expansion

**T**HE electric power industry may expect a steady increase in the use of power for a long period of years following a sharp drop immediately after the end of the war. (See accompanying charts.)

This is the opinion of M. L. Sindeband, utility engineer, inventor, and vice president of the Ogden Corporation, expressed in an article prepared for the "Public Utility Valuation" supplement of the *Journal of Commerce and Commercial of New York* for July 26, 1943.

Mr. Sindeband made note of the fact that the World War itself has caused a sharp rise in the consumption of electric power, but it has also given rise to scientific and industrial developments that will accelerate the expansion in electricity demand during the era that will follow the transition back to peace-time economy. A

slump will come as the war closes and will endure during the period of time necessary to convert war plants to peacetime production.

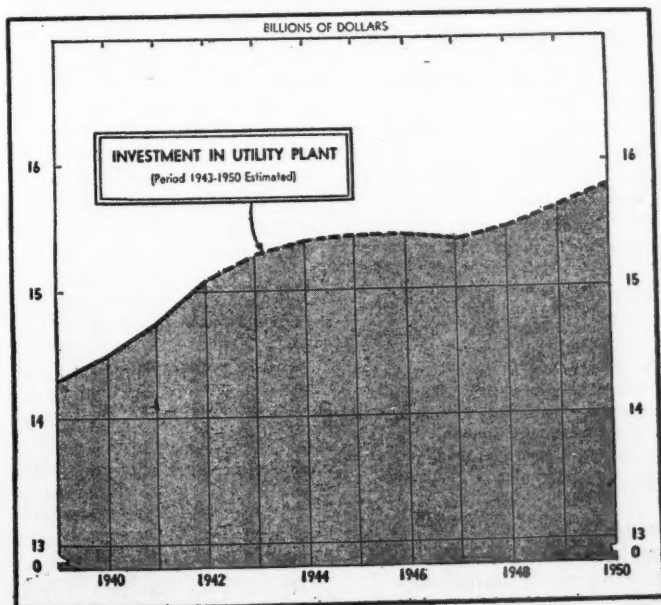
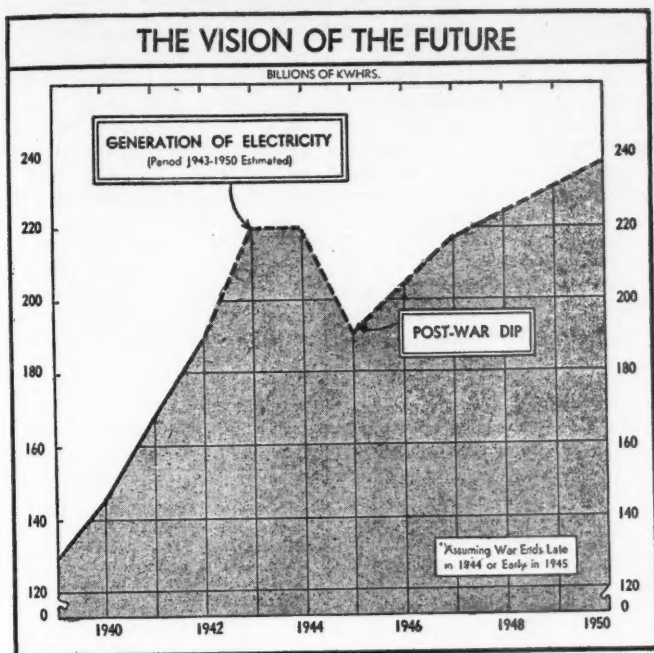
"But with reconversion completed," Mr. Sindeband said, "the postwar era will begin. At that time the scientific and technical advances that are being hastened under pressure of war will produce their fruit in the shape of increased production of better goods and services at lower unit costs."

**N**OTING that the industrial power load has been greatly increased by the war, the writer said that in the course of the next decade there is every reason to believe the present record industrial load will be largely surpassed.

"It is evident that the war has imparted a tremendous impetus to research in

## WHAT OTHERS THINK

### THE VISION OF THE FUTURE



## PUBLIC UTILITIES FORTNIGHTLY

many industrial fields," the writer pointed out. "This is particularly true in the fields of aviation, metallurgy, plastics, and synthetics. We know more about electronics than ever before. The idea largely prevails that electronic devices are limited entirely to the field of communications. This is not true. Many industries are finding practical application for electronic devices."

In addition to the increase in use of electric power in the development of light metals, plastics, and synthetics, the industrial power load also will be increased by the high level of production that is anticipated. He said the expected improvement in living standards, a building boom, a high level of export trade, and advances in transportation would make it possible for peace-time industry to maintain a level of production equal to or greater than that of the present war period.

It is fair to assume, Mr. Sindeband

said, that the home of the postwar world will be an electrical home, so that sharp gains in electric power consumption loom up in the residential field. Increased rural demand for electricity also should swell the demand for postwar electric power, as postwar farming becomes more mechanized and otherwise modernized.

ON the preceding page, two charts which accompanied Mr. Sindeband's article are reproduced. The chart at the top is a projection of electric power demand and recognizes the probable recession that will follow the end of the war and the recovery thereafter. With the recovery, an annual increase of more than 3 per cent a year is anticipated. The lower chart projects the industry's investment to 1950 (from the *Edison Electric Institute Bulletin*) and shows that the industry will have to attract large amounts of additional capital to satisfy the increased demands for service.

## Brookings Study Favors Distribution Of Pricing Powers among Agencies

A BROOKINGS Institution study expressed favor for the movement in Congress to distribute among various war agencies pricing powers now largely placed in the Office of Price Administration. The Brookings Institution study attributed the stability in the cost of living index achieved by the British government mainly to its organization of price controls along commodity lines.

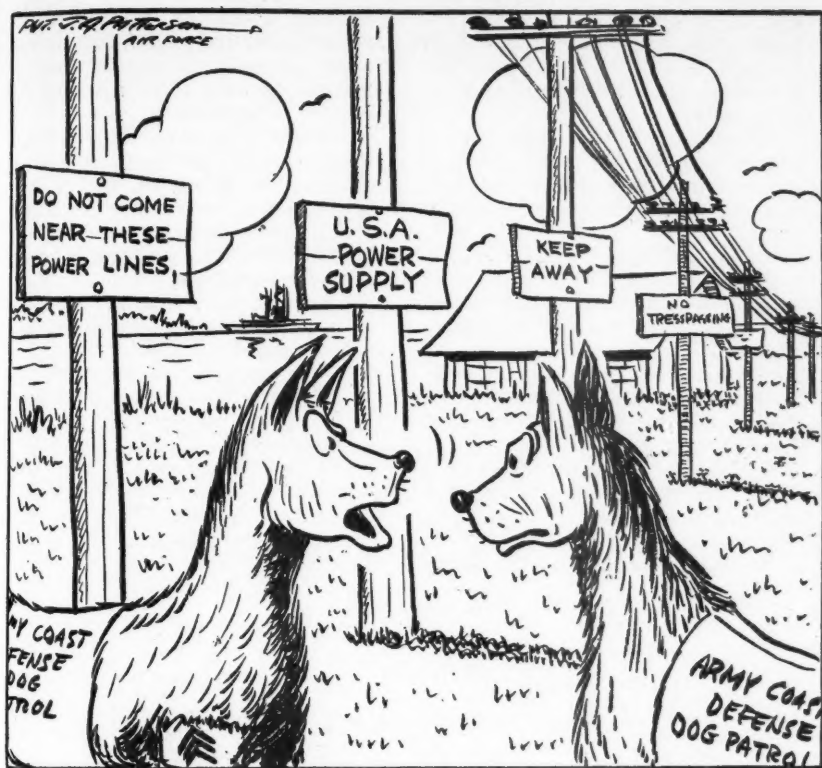
The study conceded that there are differences in institutions and economic patterns which made British controls not altogether applicable to the United States. But it stressed the point that British experience "should prove valuable" to the United States in the solution of many price problems that are common to both countries.

The British organization set-up for price controls places in each commodity and service agency responsibility for price control, rationing, import and ex-

port controls, subsidies, licensing, conservation, and standardization. This type of organization, the study notes, has made possible "an effective integration" of control over supply, demand, and price for each product and has prevented delays and confusion inherent in divided responsibility.

The survey emphasizes that creation of a central body, along lines of the Canadian war-time prices and trade board, to coordinate actions taken by the separate agencies especially in connection with factors entering into costs, would have made British price control even more effective. In spite of the lack of a central body, however, the British have kept the cost-of-living index practically stable for two years through the operation of these price controls, supplemented by subsidies and paralleled by a fiscal policy which obtains funds chiefly from nonbanking sources.

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"STEADY THERE, ROVER, THE ARMY EXPECTS EVERY DOG TO DO HIS DUTY"

The British government started paying subsidies to prevent retail price increases of some basic food products in December, 1939, but by April, 1941, the cost-of-living index had moved up 28 per cent. A much more comprehensive subsidy program was then adopted, and the index has since been maintained with little change. Actual living costs, including items not in the index, have increased about 40 per cent and wholesale prices about 65 per cent since the beginning of the war. Subsidy payments have accounted for between 2 and 3 per cent of budgetary expenditures, and are estimated at between \$500,000,000 and \$600,000,000 for the year ended March 31, 1943.

In Great Britain many wage agreements provide for adjustments in rates to

compensate for changes in the cost of living. Thus use of subsidies has had an important part in reducing the pressure for higher wages. Actual weekly wage rates in July, 1942, had increased only 31 per cent over the 1938 levels. Although total weekly earnings had risen about 60 per cent, nearly half of this was due to overtime, shifts to better paying jobs, fuller employment, and incentive payments.

Highlights of British experience as presented by the survey are as follows:

1. Price adjustments have been used by the authorities to direct the flow of agricultural products.

2. Stability of prices has been subordinate to maintenance of the flow of supplies. A controlled rise rather than

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unchanging prices has been the objective for many commodities, with the general policy being to fix prices at levels which would be remunerative to producers.

3. Imposition of price fixing or rationing has been followed by increasing pressure on substitute products, thus requiring extension of the area of control.

4. Fixing prices at retail and not at earlier stages of distribution caused supplies to disappear from the market.

5. Geographic distribution of supplies was unbalanced unless prices were adjusted to compensate for differences in transportation costs so that the distributor's return was the same from all markets.

6. Where price fixing was undertaken without rationing it resulted in an inequitable distribution of supplies, the formation of queues, and the flow of supplies to the black market. When

rationing of clothing was undertaken without effective price fixing, it was found necessary to control prices so that low-income groups could afford to acquire their rations.

7. Classification and, where possible, standardization have been indispensable to the successful control over prices and rationing of many products.

8. Subsidies have been a very valuable device in stabilizing the prices of basic food products. Stabilization of the cost-of-living index, made possible by subsidy payments, reduced substantially pressure for higher wage rates.

9. Operation of both rationing and price control was greatly facilitated when supplies were also controlled.

10. British fiscal policy, which was based on heavy taxes and large-scale diversion of current savings to the government, appears to have eased the task of price control and rationing authorities.

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## Manufacturers' Publication Warns against Inflation in Postwar Period

HIGHER personal income taxes on small incomes, stabilization of wages, and less dependence upon banks for financing war deficits—these are the steps advocated by the current issue of "Industry's View," published by the National Association of Manufacturers, to close the "inflationary gap" and prevent runaway prices immediately after the war. The publication reviewed "the piecemeal approach to the control of prices and wages for the last two years" and concluded that "price controls and regulations are merely an attempt to sit on the safety valve"; and that "they do not reduce the explosive forces that are being generated through steady increase in the money supply."

"Greatly increased taxes, especially sales taxes, should be adopted immediately," the publication stated. "The rates on corporate income and on the upper

brackets of personal income have been already pushed to the maximum limit."

The publication said that the sale of bonds to private investors "must be increased by voluntary methods as far as possible—by compulsion if necessary." It urged that banks "should be relieved as far as possible of the necessity of financing war deficits because such financing tends to fan the flame of inflation." "Wages must be stabilized because increases in wages start an upward spiral of rising prices," the publication continued. "Increased wages tend to increase costs and increased costs lead to higher prices, which in turn create a demand for further wage increases."

The publication emphasized that war prosperity was a "phony" prosperity, adding that "the sooner we face this fact the sooner we'll realize the real nature of war-time inflation."



# The March of Events

## Irrigation Construction Resumed

THE War Production Board late last month approved resumption of construction of 19 irrigation projects in 12 western states, lifting its previous work stoppage order. The action was based on recommendations of the War Food Administration, claimant agency for the materials involved, and of the Bureau of Reclamation and the Bureau of Indian Affairs, under whose jurisdiction the projects come. It was shown that the approximately 360,000 acres of land to be served by the projects are well suited to the growing of crops needed in the prosecution of the war.

Included among the projects is the Colorado-Big Thompson tunnel project. Present plans call for completing the tunnel for irrigation purposes, but once the tunnel is completed it is proposed that several dams be installed to generate power from the water flowing through the mountain underpass.

States in which the projects are located are as follows: Montana, Nevada, Idaho, Arizona, New Mexico, Wyoming, California, Colorado, Oregon, Utah, South Dakota, Washington.

## Voluntary Conservation Urged

COOPERATION of industry in a nationwide conservation campaign to release critical resources—fuel, man power, equipment, and materials—for war purposes was called for last month by Secretary of the Interior Harold L. Ickes, Defense Transportation Director Joseph B. Eastman, and War Production Board Chairman Donald M. Nelson. The joint statement asked the coal, petroleum, electric, natural and manufactured gas, water supply, communications, and transportation industries to formulate plans for an intensive voluntary campaign to get under way late this summer. (See also page 180, August 5th issue.)

The campaign will be directed toward household, commercial, and industrial users and will be guided by an interagency government committee composed of J. A. Krug, director of Office of War Utilities; Ralph K. Davies, Deputy Petroleum Administrator for War; H. A. Gray, Deputy Solid Fuels Administrator for War; ODT Director Eastman; and assistants of these officers. The committee will confer with leaders of the various industries to work out the programs each will undertake.



## PGE to Carry Bonneville Power

THE Bonneville Power Administration and the Portland General Electric Company (Oregon) completed arrangements last month providing for transfer of Bonneville power over the company's lines for delivery to a new coast naval air station.

Under the terms of the contract signed by Assistant Bonneville Administrator U. J. Gendron and company officials, the company will transfer power to Bonneville at the PGE substation near Willamina for delivery over Bonneville and Mountain States Power Company lines to the naval air base.

The agreement, it is reported, will make possible the delivery of Bonneville power to the new air station over existing transmission lines, thereby saving a large quantity of critical materials that otherwise would have been required to build a new line.

## Dissolution Plan Approved

THE judicial stamp of approval was placed upon the majority opinion of the Securities and Exchange Commission which established the right of a common stockholder in a public utility holding company undergoing dissolution, to some participation in the assets of the company, even though the common stock was "under water" and the interest of the common stock in earnings was remote. The approval was given by Federal Judge Paul Leahy in the U. S. District Court at Wilmington in approving the dissolution plan for United Light & Power Company. The commission had applied to the court to enforce and carry out the plan.

In upholding the majority, Judge Leahy ruled out the dissent of Commissioner Robert E. Healy, who contended that the bankruptcy technique of "absolute priorities" also held in the liquidation of a holding company under the Holding Company Act. Mr. Healy said that the common stockholders of United Light & Power were not entitled to anything because the liquidating demands of the preferred would eat up all the assets.

Under the plan, United Light & Power would contribute cash and certain investments of its own to its subsidiary, the United Light & Railways Company, and the preferred and common stocks of the top company would be reclassified into a single class of common stock by way of the distribution of the common stock

## PUBLIC UTILITIES FORTNIGHTLY

of United Light & Railways in the ratio of 94.52 per cent to United Light & Power's preferred stockholders and 5.48 per cent to its common stockholders. United Light & Power ultimately would be dissolved.

### New Appointments in Reclamation Bureau

SECRETARY of the Interior Ickes early this month announced three administrative changes in the Interior Department, including the appointment of a new Commissioner of Reclamation.

Harry W. Bashore, for thirty-seven years with the Reclamation Bureau, succeeds John C. Page, who resigned recently because of ill health. Bashore had been assistant commissioner since 1939, and was recently named acting commissioner upon Mr. Page's retirement. He began his career as a surveyor in the Interior Department.

William E. Warne, director of information of the department, has been named assistant commissioner, and Robert W. Horton, special assistant to Secretary Ickes, was appointed director of information.

### Puerto Rican Seizure Sustained

A NEW move by the Federal Works Administrator to retain possession of private utilities operating in Puerto Rico has been sustained by U. S. District Judge Robert Cooper at San Juan. In the first instance, the Federal Works Administrator had petitioned the Puerto Rican court for the right to take over the Puerto Rico Railway, Light & Power Company and the Mayaguez Light, Power & Ice Company to consolidate them with government-owned utilities already operating in Puerto Rico.

The government based its right to seize the property under the provisions of the Lanham Act, which gives the government the right to condemn property for war purposes. The decision of the San Juan court was reversed by the U. S. Circuit Court at Boston and immediately before a formal order could be served upon the government to return the properties to private ownership, the Federal Works Administrator filed a new action in the Puerto Rico Federal District Court, seeking the right to retain the private utilities under the provisions of the Second War Powers Act.

It was this new move by the government which was sustained by the court. The matter will probably be appealed to the U. S. Circuit Court at Boston again, to determine whether or not the government has authority to make the seizure under the Second War Powers Act.

Federal Works Administrator, Major General Philip B. Fleming, late last month ordered reductions averaging 10 to 11 per cent in the rates charged industrial, residential, and other users of electricity in two important areas of Puerto Rico. The reductions were es-

timated to result in savings amounting to approximately \$323,000, to consumers in the San Juan area, served by the former Porto Rico Railway, Light & Power Company system, and the Mayaguez area, served by the former Mayaguez Light, Power & Ice Company system.

The savings to consumers will be enlarged, however, and the scope of the rate reductions widened, by rate revisions which it was understood would be made by the Puerto Rico Water Resources Authority on its own system, not affected by General Fleming's order.

The order applies to the two systems which have been operated by the authority for the Federal Works Administrator since the administrator took them over from the private owners in July, 1942, under court order, as a war measure and at the direction of President Roosevelt. The authority unified these two properties with its own, and substituted its hydroelectric power for much of the steam-generated power previously used.

### New Power for Interior Department

BY Executive Order on July 30th, President Roosevelt transferred to the WPB Power Division full authority over the distribution of electric power generated at Grand River, Denison, and Norfolk dams. Denison dam in Texas and Norfolk project in Arkansas and Missouri will remain under Army supervision for construction purposes until they begin generating electric power early next year. Grand River Dam Authority, formerly an Oklahoma state project, is already in production.

The Executive Order delegated authority as follows: (1) Secretary of Interior Ickes is named "agent for the sale and distribution of electric power" generated at Denison; (2) Denison will be completed and operated by the Army Engineers; (3) Secretary of War is to turn over surplus power to and provide distribution facilities for Interior at Denison; (4) Ickes is to sell Denison power to "war plants and establishments, public bodies and coöperatives, and other persons, in that order of preference," under rates fixed by the Federal Power Commission and construct such interconnecting facilities as may be required; (5) Ickes is authorized to make use of private transmission lines and facilities "upon such terms as the owners thereof . . . may thereafter agree upon or . . . as may be fixed by the Federal Power Commission"; (6) receipts from the sale of power to go to the Treasury; (7) personnel not subject to civil service rules; (8) the Federal Works Agency is required to turn over to Ickes all of its authority over Norfolk and Grand River dams.

By the terms of this order, Secretary Ickes moves several steps nearer a position of domination over all public power operations, with the exception of the Tennessee Valley Authority.

## THE MARCH OF EVENTS

### Construction of Weir at Niagara Falls Completed

CONSTRUCTION of a submerged weir in Niagara Falls, above the Canadian and American Falls, was recently completed by the two governments, as a result of action urged by the Special International Niagara Board several years ago. The exact location of the weir cannot be published, for military reasons, but the results are of great importance.

Besides restoring the beauty of the American Falls, the weir, acting as a partial dam, has raised the level of the river nearly a foot. This

not only increased the fall of the water an extra foot for power purposes, but also increases the amount of water available. Both factors increase the power since power is calculated by multiplying the amount of water falling by the distance of the fall. Furthermore, in a dry season, when the river level is likely to drop, the weir will tend to keep up the Grass Island pool from which the water is withdrawn for power.

The menace of ice getting into the intakes of the hydroelectric plants has been diminished because much of the ice now is swept down the deepened channel leading to the American Falls.

## Alabama

### Delinquency Penalties Abolished

TEN per cent delinquency penalties which users of electricity, gas, and water have been required to pay by utility concerns were abolished by the Alabama Public Service Commission in a recent order, it has been reported. The penalties were charged to utility customers failing to pay bills within ten days after the date of issuance.

The companies directly affected by the order are the Alabama Power Company, with

176,000 customers; Birmingham Electric Company; Alabama Water Service Company; Liddell Power Company, serving Wilcox county only; and Tallassee Mills Utility Company, serving Tallassee and vicinity.

The commission further ordered reduced from 50 cents to 25 cents the collection fee heretofore required when a collector called on a customer to collect a delinquent bill, and reduced from \$1 to 75 cents the fee for reconnection after service had been discontinued because of nonpayment of account.

Loss to the utilities is estimated by the commission at \$200,000 annually.

## Arizona

### To Investigate Gas Price

THE Arizona Corporation Commission recently refused to dismiss Governor Sidney P. Osborn's complaint concerning natural gas rates charged by the Phoenix and Tucson utilities. He had alleged that reductions had not been passed on to consumers. The dismissal was requested by the governor, no reason being given for the plea.

In denying the request, the commission declared that Governor Osborn's allegations "are either true or false" and the "whole public is entitled to know that answer." Accordingly, the case was docketed for hearing.

Governor Osborn's complaint was filed against the Central Arizona Light & Power Company, Tucson Gas, Electric Light & Power Company, and all other public utility companies similarly situated.

The commission ordered the hearing to be held on July 29th, but neither Governor Osborn nor his counsel made an appearance. At the hearing, however, records were submitted by the commission showing that substantial reductions had been made by Central Arizona Light & Power. The records revealed that from Oc-

tober 1, 1938, to November 1, 1942, reductions given Central Arizona by El Paso Natural Gas Company totaled \$195,987.56 and that this amount was passed on to the consumers. Since November 1st, it was claimed, the utility has made additional reductions to the consumers.

Dismissal of a similar complaint was also requested by W. W. White, chief accountant for the Arizona Highway Department and chairman of a group of 180 seeking lower rates, to await a more auspicious time for refile of the proceeding.

### Lower Power Rates Granted

THE Mesa utilities board has granted an electric rate reduction, effective August 1st, to the city and surrounding area—approximately 13 per cent for the city and 28 per cent for the suburban district. It is estimated that the new rate will amount to a \$10,000 yearly reduction for city residents and approximately \$35,000 for those residing outside the city. The reduction is in keeping with lower rates established by other utility service companies in the central part of the state during the past few months, it was said.

## Arkansas

### To Map Postwar Plant Uses

**T**HE state recently moved to develop a program under which its war plants may be converted later to civilian production. The utilities commission contracted with George S. May Company of Chicago to conduct a survey and fact-finding analysis for a maximum fee of \$18,000, with a provision that all work must be completed within eighteen months. A bal-

ance remaining in the commission's annual \$25,000 "special services" account at the close of the fiscal year June 30th will be used to pay most of the cost.

The program was projected, the commission's order said, because increased consumption of electricity by war plants has resulted in lower rates and refunds to other consumers, and because a loss of these industries after the war might force rates higher.

## California

### Power Line Ordered

**I**MMEDIATE construction of the Shasta-Oroville transmission line, part of the Central Valley project in the northern part of the state, was ordered last month by Secretary of the Interior Harold L. Ickes. The line will be 98 miles long and is estimated to cost \$1,900,000.

The announcement of the move stated that Ickes ordered speedy construction of the line to insure "delivery of vitally needed hydroelectric power in California next year to serve war industry and save fuel oil." The announcement

also revealed that all of the equipment for the line, to run from Shasta dam, near Redding, to Oroville, has been purchased and bids for the construction work were soon to be advertised.

Construction of the line had been in controversy between the Interior Department and the Pacific Gas and Electric Company. The War Production Board recently, however, denied application of PG&E for priorities for such construction, and pointed out that Interior's application for such priorities had been approved last April. The issue remains unsettled.

## Colorado

### Utility Property Transfer Approved

**T**HE Colorado Public Utilities Commission recently gave the Mountain Utilities Corporation authority to transfer its certificates of public convenience and necessity and its properties in Douglas, Elbert, and El Paso counties to the Intermountain Rural Electric As-

sociation, a rural electrification coöperative. No opposition to the transfer was offered at a hearing held in June.

The sale will involve \$147,000, the commission was told, and includes electric transmission and distribution lines supplying Monument, Kiowa, Elbert, Elizabeth, and Palmer Lake and their vicinities.

Energy for the system is obtained from the city of Colorado Springs.

## District of Columbia

### Electric Rate Slash Appealed

**T**HE Potomac Electric Power Company late last month filed an appeal in district court from the public utilities commission order reducing the yearly electric rate by \$350,000. Shortly afterward, the commission filed its answer to suits brought by the Office of Price Administration, the Office of Economic Stabilization, the procurement division of the Treasury Department, and the Public Buildings Administration.

The PUC upheld its \$350,000 yearly decrease and alleged the demands of the govern-

ment agencies for a \$2,000,000 decrease were unwarranted.

The government agencies contended the \$350,000 decrease is in effect inflationary, since it allegedly gives the company an excessive profit. The electric company contended, since no increase in rates was contemplated, the OPA and OES were not legally empowered to take any action. The company also wanted the same rate computation as used in 1942 and felt any reduction would deprive it of a fair profit. The commission contended that when the government agencies entered the commission hearings they tried to sidetrack the issue by at-

## THE MARCH OF EVENTS

tacking the sliding-scale arrangement under which rates were contemplated. This, they said, was out of order since courts had decreed the sliding scale is valid. The Federation of Citizens Associations and various individuals petitioned the court to allow them to enter the case as parties materially affected by any action the courts must take. The associations stated they wished to maintain the sliding-scale agreement but would not resist a decrease on that basis.

Subsequent to the U. S. Circuit Court of

Appeals decision of July 26th, which supported the commission in its refusal to order a slash in rates of the Washington Gas Light Company (see page 258), the commission asked the district court to dismiss the appeal taken from its ruling in the PEPCO Case by OPA Administrator Brown. It was on the basis of the court of appeals decision in the gas rate case that the commission had full power to regulate rates of utility companies in the District that dismissal of the appeal against the electric rate ruling was asked.

## Illinois

### Appeal Filed in Transit Merger

ATTORNEYS representing the proposed Chicago unified traction system and the city of Chicago recently filed in the superior court a notice of appeal from an order of the Illinois Commerce Commission forbidding the consolidation of the surface and elevated lines. The city also appealed the commission's grant of a permanent 8-cent fare to the surface lines.

The filing in the unification case was ordered by Judge Michael L. Igoe of the Federal District Court, an advocate of the merger, and was designed to keep every avenue open for the eventual combination of the traction properties, it was reported. One of the principal arguments for the appeal was that the commission had refused a rehearing of the case although the unification proponents offered to produce new evidence.

## Indiana

### Utility Tax Valuations Rise

TAX valuations of railroads and public utilities in the state increased \$73,591,431 over valuations of the same properties in 1942, the state tax board reported recently.

It was reported that the increase would have the effect of reducing the tax burdens of the general taxpayers in counties where the utilities and railroads are situated. The general increase in the assessment of these properties also figured in the decision of Governor Henry F. Schricker to recommend another 1-cent reduction in the general state tax rate.

Figures made public by the state tax board showed the total final assessments of utilities and railroads to be \$701,026,775 for 1943 as against a total of \$627,435,344 for 1942.

The largest percentage of increase in any group of utilities was in the electric railroads.

Percentages of increase for each class of public utilities as announced by the state tax board are as follows: steam railroads, 19.2 per cent; electric railroads, 72.5 per cent; telephones, 6.8 per cent; express, 53.7 per cent; telegraph, 9.3 per cent; sleeping car, 59.2 per cent; pipe lines, 8.6 per cent; public utilities, 1.9 per cent; REMC, 9.7 per cent; car equipment, 49.8 per cent.

However, the state tax board later pointed out that, due to a legal quirk, local taxing units may be unable this year to take advantage of increased utility assessments.

The 1943 legislature fixed the date for advertising budgets of various local units of government, but failed to set back the date for the assessment of utilities by the tax board, thus making it impossible for the latter to certify its new and increased utility assessments before advertising budgets, it was explained.

## Kentucky

### Asks Explanation of Utility Cost

THE Federal Power Commission on July 19th ordered the Louisville Gas & Electric Company to show cause within thirty days why it should not be ordered to dispose of over

\$20,000,000 in write-ups and other amounts representing excess over original cost.

According to the order, the company had filed its reclassification and original cost studies in 1940. After examination of these studies, the commission issued a report, submitted to the company in 1942, which requested among



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other things that indicated accounting adjustments be made, that copies of the adjusting entries be submitted, and that the company advise the commission whether it concurred in certain proposed adjustments. As a result of correspondence and conference, the commission stated, the company accepted certain adjustments proposed by the commission's staff, but failed to submit plans for the disposition of amounts classified by the staff in accounts 100.5 and 107.

J. J. McKenna, vice president and treasurer of the company, said on receipt of the order it appeared that there was some question as to whether the matter should be under state or Federal jurisdiction.

### TVA Refuses to Evaluate Utility

OFFICIALS of the Tennessee Valley Authority declined to express an opinion as to

how much Paducah should offer the Kentucky Utilities Company for its system, if the property is to be purchased as a single unit, Mayor Pierce E. Lackey recently told the city commission in reporting a Knoxville conference to expedite action preliminary to use of TVA-supplied power.

"We were advised that when an original appraisal was made by TVA engineers," the mayor said, "there was no effort made to ascertain the value of the Paducah system, if it should be separated from all the company's facilities west of the Cumberland river."

The mayor also reported that he was told that if the entire system (all west of the Cumberland river) were not purchased under an agreement providing that all power required by the towns and cities of the area be furnished by TVA, "the factors involved were of such nature as to eliminate a TVA appraisal." The city previously had received from TVA an appraisal of all KU properties west of the Cumberland, valuing the system at \$3,200,000.

## Maryland

### PSC Ignores OPA

THE state public service commission recently began an inquiry into Baltimore taxicab rates, despite a petition filed with the PSC by OPA Administrator Prentiss M. Brown, asking that the hearing be postponed for ninety days.

Mr. Brown had requested the postponement on the basis that sufficient time should elapse in order to allow the commission "to ascertain with a much greater degree of accuracy the amount paid by the public for taxi service."

Stewart Purcell, commission chairman, declared that "we have before us a petition of

taxicab operators for a higher rate. The burden is on them to satisfy the commission it is justified."

The major taxicab companies of the city, with the exception of the Sun Cab and Black and White cabs, joined in a petition to increase the cab rates from 25 cents for the first 2 miles to 25 cents for the first mile and 5 cents additional charge for each additional third of a mile, instead of the present charge of 5 cents for each additional half-mile.

The cab companies argued that the higher rate was necessary because of the increased costs of cars, tires, parts, and repairs. Repair jobs, which formerly cost about \$35, now cost more than \$100, they said.

## Michigan

### Taxes May Be Charged As Operating Expense

THE Michigan Public Service Commission recently dismissed a second petition of the city of Detroit seeking to have the commission fix reasonable rates to be applied by the Detroit Edison Company as of October 26, 1942, and for the reasonably foreseeable future. The Office of Price Administration had intervened in favor of a reduction. The case turned on the question whether excess profits taxes of \$6,000,000 were properly allowable as operating expenses. The commission said:

"Under the laws of the state of Michigan a regulated utility is entitled to earn a fair return upon the present value of the property de-

voted by it to public service. Money that has been lawfully spent in rendering service constitutes no part of such a return. The dollar paid out for taxes is no more available as income and return than a dollar spent for labor or any other legitimate expense. . . . We know of no statute giving us the power to forbid a company the right to charge as an operating expense any tax lawfully incurred by it. . . . We therefore find that all taxes are a proper operating charge and they will be so considered in determining the income of the company. . . ."

The commission disallowed so much of charges to operating expenses for a newly established noncontributory pension plan as would provide pensions on a wage base in excess of \$3,000 a year. Charges for "provision

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for postwar adjustment" amounting to \$480,000 (as well as charges for depreciation of \$9,495,930) were allowed as operating expenses. The commission stated:

"... An alternate policy would be the reduction of rates to a point that would prevent the accumulation of such reserves. Under such a policy the financial ability of utility companies to meet the reconstruction problems that will follow the war would be in constant doubt. The ratepayers in many instances would find themselves in the position of enjoying unwarranted low rates at a time when they are most

able to pay, and high rates in a subsequent period when they may be least able to pay. Such a condition is not consistent with good regulation..."

Subsequently, a special supplemental order was issued reserving jurisdiction to reopen the case to make retroactive "the effect" of any "exemption from or reduction in Federal taxes to the year 1943." According to a member of the commission, the new order was issued "because the city informed us a bill is pending in Congress to exempt public utilities from excess profits taxes."

## Nebraska

### Urges No "Dimout"

**H**AROLD KRAMER, general manager of the Loup River Public Power District, recently announced that he believed Nebraska, because of its location and because of its surplus of electricity, should be exempt from any "dimout" regulations that may be imposed. He said he had conferred with officials of the War Production Board's Power Division, and had been advised that there is a possibility of voluntary "dimouts" being instituted in the fall. (See page 180, August 5th issue.)

"Nebraska is one state," Kramer is reported to have said, "that does not need 'dimout' electric restrictions covering street, window, commercial, urban, or rural illumination. In the first place, the element of danger from night bombing prevalent on the East and West coasts definitely does not apply to us in the interior."

"In the second place, we have surplus of electricity in Nebraska through our hydroelectric system and there is no prospect whatever of any shortage which might necessitate any 'dimout' in our state."

Nebraska, he said, now has a surplus of 50,000 kilowatt hours of electricity.

### Ask City Not to Buy Power Company

**T**HE employees of the Nebraska Power Company recently passed a resolution declaring that Mayor Dan Butler and the city council in May, 1942, expressed a desire that the company remain under private ownership and calling upon the mayor and council to stand behind the statements.

Principal speaker at the meeting of employees was Morris Jacobs of the firm of Bozell & Jacobs, which handles public relations and advertising for the power company. Jacobs told the meeting that he and Mr. Bozell oppose municipal purchase of the plant because they feel they must defend the principle of free enterprise.

Jacobs quoted Securities and Exchange Commission officials as saying the power company does not have to be sold, and declared no one had authority to tell legislators that passage of LB 204 would make it mandatory for the city to purchase the firm. He asserted LB 204, passed to enable Omaha to buy the power company, was fathered by a committee named by Mayor Butler.

### Free Right of Way Held Illegal

**T**HE Nebraska Supreme Court last month held that the legislature was without authority when, in 1933, it gave the Platte Valley Public Power and Irrigation District free right of way over school lands in Lincoln county, on which canals were constructed.

The opinion, written by Judge Yeager, held that as these lands were ceded to the state by the Federal government in trust for the public school system, the state is without power through legislative means or otherwise to deed such lands or to grant easements over them without compensation. It may not bestow a special benefit upon any person or corporation, public or private, at the expense of this trust.

Suits are expected to be brought against a number of other recipients of such grants by the legislature.

## New Jersey

### FPC Suspends Service Changes

**T**HE Federal Power Commission on July 20th announced its order suspending the changes in service provided for in two supple-

mental rate schedules filed by the Jersey Central Power & Light Company, Asbury Park, New Jersey, and setting a public hearing concerning the matter at the commission's offices in Washington, D. C., on September 1st.

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Jersey Central proposed to open switches on the interconnection facilities between South Amboy and Perth Amboy, thereby—according to the commission—endangering the continuity of service upon its own system as well as Public Service Electric & Gas Company's system in case of an emergency.

The order continued that unless suspended by direction of the commission, the changes in service would permit Jersey Central "to terminate the existing arrangement for the interchange of economy energy and service with Public Service Electric & Gas Company, resulting in the necessary use of higher-cost generating facilities, waste of critical natural resources, and consequent higher costs, which must be borne by the consuming public; that the termination of the existing arrangement which has been operative since 1931 appears to be contrary to the public interest."

The commission's order suspended the proposed rate schedules until December 15, 1943, and provided that during the period of suspension the rates, charges, and service relating to the interchange of emergency energy and service, as well as the interchange of economy energy and service as provided for and supplied in the past shall continue in full force and effect. The order also stipulated that at the hearing "the burden of proof to show the lawfulness of the proposed changes in service shall be upon Jersey Central Power & Light Company."

### Ask End of Coast Dimout

ATLANTIC CITY officials and resort amusement men recently began a movement to abolish the coastal dimout, which began March 20, 1942.

The drive was initiated by Frank P. Gravatt, owner of the Steel Pier, as president of the Atlantic City Amusement Men's Association. He appealed for aid from city commissioners, U. S. Senator Albert W. Hawkes of New Jersey, and Representative Elmer H. Wene of the area. Mr. Gravatt said that lifting of the Army-ordered dimout at this time of the summer season would enable many resort merchants, hard

hit by the war and Army occupation of Atlantic City hotels, to recoup much of their losses. His plea received immediate support from City Commissioner Joseph Altman.

### Utilities Lose Franchise Tax Case

THE state supreme court on July 22nd ruled that utility companies cannot include service connections to consumers in their computation of the length of mains and lines on which the gross receipts franchise tax is based. This opinion affirmed a decision of the state board of tax appeals, from which Jersey Central Power & Light Company, Public Service Electric & Gas Company, New Jersey Bell Telephone Company, and New Jersey Power & Light Company had appealed.

The litigation before the court involved assessments for 1940, and tax authorities said the opinion would mean a million dollars more in state revenues. If a utility were permitted to count all its lines running along public thoroughfares, plus service connections, its franchise tax would be less, the court said.

The percentage which the length of lines or mains along public thoroughfares bears to the whole length of a utility's lines or mains measures the amount of money to which the state's 5 per cent gross receipts franchise tax is applicable.

The tax board decision had said: "While some doubt might attend the word 'lines' were it alone, there cannot be the slightest question but that the word 'mains' means only, as the word itself signifies, the main or principal conduits by which gas and water are distributed by gas and water companies. It does not mean the service pipes connecting the mains with the consumer's premises." The same principle applied also to electric lines and connections, the court held.

The opinion applied only to 1940 assessments, the court held, because the legislature amended the tax laws in 1941 to eliminate any doubt that service connections were not to be counted as conduits.

## New York

### Bimonthly Gas, Light Bills

MORE than 2,000,000 householders and other users of gas and electricity in the metropolitan area of New York will be billed once every two months instead of monthly, under a plan for saving man power and essential materials which the public service commission authorized recently for the Consolidated Edison Company and its subsidiaries. The plan is similar to one now in use by the Brooklyn Union Gas Company and the Brooklyn Edison Company.

Companies to which the practice now will be extended are Consolidated Edison Company of New York, Inc.; New York & Queens Electric Light & Power Company; Westchester Lighting Company; and Yonkers Electric Light & Power Company.

The plan, it is believed, will reduce expenses for the companies yearly about \$1,339,000 in wages, cost of equipment, and materials. The saving to Brooklyn Edison Company was estimated at \$500,000 annually, so that the overall saving for the entire Consolidated Edison system will be almost \$2,000,000 a year.

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Under this plan, it was stated, consumers might find their monthly cost of service increased or decreased by small amounts, since the combined 2-month consumption might extend the charge into a different rate block. However, any consumer desiring to avoid a possible increase may do so by reading his own meter monthly and noting the figures on post-cards to be supplied by the companies. Consumers must be billed monthly under this arrangement.

### Fight Tube Fare Rise

**E**CONOMIC Stabilization Director Fred M. Vinson and Price Administrator Prentiss M. Brown recommended several weeks ago that the Interstate Commerce Commission reject a proposed fare increase for the Hudson & Manhattan Railroad Company, operating from New York city to New Jersey. They further recommended that the ICC revoke the recently authorized 9-cent fare for the downtown line and continue the current 8-cent fare.

The company had sought a uniform 10-cent fare on the uptown and downtown lines and permission to sell 11 token fares for \$1. Technical difficulties made the 9-cent fare unworkable, the railroad declared.

Mr. Vinson and Mr. Brown said the proposed new rate would discriminate between uptown and downtown passengers and the token system would involve the use of critical materials.

### Water Rental Hearing Postponed

**T**HE state water power and control commission early this month adjourned until August 30th a scheduled hearing to determine a rental for water diverted from the Niagara river for use by the Niagara Falls Power Company.

Attorney General Nathaniel L. Goldstein moved for the adjournment. He explained that State Supreme Court Justice Pierce H. Russell had not yet rendered a decision on the application of the power company for an injunction to restrain the state from conducting hearings pending a test of the constitutionality of the rental law.

Under the law, passed by the last session of the legislature, the state is permitted to charge rental for an additional 15,100 cubic feet a second of water diverted by the company, which pays \$400,000 a year for 4,900 cubic feet a second.

## Ohio

### Suit against Transit Company Urged

**A** \$1,000,000 damage suit against the Akron Transportation Company for failure to provide adequate service as called for in a 15-year franchise was proposed recently by City Councilman Fred Danner. The proposal was made known to other councilmen at a special meeting to discuss transportation—rapidly becoming Akron's most important problem, according to reports. Danner declared it was common knowledge that the company had not rendered adequate service and continued:

"In any contract where either party is damaged by lack of successful performance of the other, he has an action for damages. That 250,000 residents here have been damaged over \$1,000,000 cannot be successfully contradicted."

Declaring that the company will be diligently and relentlessly prosecuted, Mr. Danner asserted that only to the extent that the service improves should the city consider any action for a lesser amount, and, to the extent that it does not improve, the city should ask for a greater amount. He said that the defense plea of inability to obtain drivers or parts for busses is "highly debatable."

## Pennsylvania

### Refunds to Be Distributed

**R**EFUNDS and reparations aggregating \$67,788, ordered several months ago in a rate reduction case before the state public utility commission, will be made either in credit or by check to 22,815 consumers, it was announced last month by the Edison Light & Power Company.

Residential consumers, whose monthly bills

were \$2.16 or more, constitute the greatest number of those receiving benefits. They number 21,475 and will receive a total refund of \$23,719.97.

The largest disbursement will be distributed to 1,316 commercial and industrial accounts. The refund to residential consumers is deducted from their July or August account, and if it exceeds the amount of the bill a check for the difference is issued to them.

## South Carolina

### Company Answers Charges

THE South Carolina Electric & Gas Company, in filing an answer to the summons signed recently by Federal District Judge George Bell Timmerman, in which he called upon the company to answer charges of maintaining an alleged dam on Broad river, operating without a license from the Federal Power Commission and without legal title to the properties involved, charged that the court lacks jurisdiction in the matter.

In the answer filed, the company moved that

the order signed by Judge Timmerman be vacated and that action be dismissed upon the grounds that the court lacks jurisdiction in that the amount actually in controversy is less than \$3,000 exclusive of interest and costs. It was stated also that "no right or immunity created by the Constitution or laws of the United States is involved as essential elements of the plaintiff's cause of action."

The defendant replied further that "there is no diversity of citizenship and that the complaint fails to state the claim against the defendant upon which relief can be granted."

## Tennessee

### City Purchase of Utility Approved

THE state railroad and public utilities commission on July 24th approved separate petitions of the Tri-City Utilities Company and the city of Jellico for approval of the sale of the utility facilities to the city, for a consideration of \$60,000. Both petitions stated that the utility company and the municipality had entered into an agreement on July 15, 1943, for the sale and transfer of the entire electric generation and distribution properties in the Jellico division, which includes generation and distribution facilities in Tennessee and distribu-

tion facilities in Kentucky. The contract excludes accounts receivable, unbilled revenue, and materials and supplies.

As part of its order approving the transfer, the commission said that when the transaction is finally completed, it will issue a certificate directing dismissal of a suit now pending in district court in Tennessee, charging the company with discrimination in rates charged to certain customers.

The utility is a subsidiary of the Associated Gas & Electric Corporation, now being administered in Federal receivership. Trustees of AGECORP have approved the sale on behalf of the receivership, and formal approval by the court was expected.

## Utah

### Merger Permission Granted

RESERVING full jurisdiction over book entries when the matter is finally settled, the Utah Public Service Commission has granted the Utah Power & Light Company permission to merge or consolidate with the Utah Light & Traction Company, which it has been operating under lease for a number of years.

The Traction Company assets represent principally the electric light and power distribution facilities in Salt Lake City and the public transportation system. Utah Power & Light Company desires to form the single company by acquiring outright the Traction Company's properties, so as to simplify the procedure and make easier the refinancing of a \$44,000,000 bond issue in 1944.

The report and order of the commission specifically requires that the Power Company submit the final plans to it before the merger is made effective. It indicated it would require the elimination of all write-ups, the elimina-

tion of all intercompany transactions, and the adjustment of the books of both companies and the surviving Power Company to conform to the uniform system of accounts set up by the commission. To be excluded will be various construction fees, "finders' fees," write-ups in the Power Company's investment in the Traction Company stock, which the commission claims amounts to \$4,627,000, or the excess of cost of Power Company's investment in the common stock of Traction Company. The Power Company had sought to transfer the write-ups to increase the plant account of the surviving company.

The commission's order called attention to the fact that matters with respect to refinancing and original cost are now before the Securities and Exchange Commission and the Federal Power Commission, and that it is expected that decisions of the two Federal commissions will be brought to the attention of the Utah commission for such further action as may then be necessary or appropriate.



# The Latest Utility Rulings

## Power Project Original Cost Determination Sustained in Part



THE circuit court of appeals, in reviewing orders of the Federal Power Commission determining the actual legitimate original cost of the Jordan dam project of the Alabama Power Company, upheld the commission in some respects, reversed it in others, and remanded for further findings on questions as to which there was doubt.

Reference was made to the fact that the commission's determination of the cost of the company's first project (Mitchell dam) was reviewed and in substance affirmed in *Alabama Power Co. v. McNinch* (1937) 68 App DC 132, 21 PUR(NS) 225, 94 F(2d) 601, and *Alabama Power Co. v. Federal Power Commission* (1942) 75 App DC 315, 128 F(2d) 280, 44 PUR(NS) 197, while the determination as to the Martin dam project was reviewed and in substance affirmed in *Alabama Power Co. v. Federal Power Commission* (1943) 134 F(2d) 602, 47 PUR(NS) 257.

Because in those cases the governing principles were fully canvassed and applied, the court did not further elaborate them. The company conceded that the court had, in the Martin dam case, disposed of most of its claims adversely, but it insisted that they were incorrectly decided and urged the court to reconsider them. The commission insisted that, upon the principles of *res judicata* and *stare decisis*, the matters determined in the Mitchell and Martin dam cases might not be reconsidered. The court said:

We need not undertake to determine whether the questions decided in those cases could be differently decided here, for we are not in any doubt that they ought not to be. We shall, therefore, make the same disposition of them as was done in those cases, confining our investigation and decision anew

to those matters presented here for review which were not presented and determined in the earlier cases.

This resulted in a determination in favor of the company on claims for bonuses paid as additional compensation and certain traveling expenses. It disposed adversely to the company of certain claims relating to payments to an affiliated company, general administration expense, interest, taxes, charges for general construction equipment, and land acquired in a merger. It left for consideration and determination the question of a commission paid for land purchases from the state of Alabama, a credit for electric energy generated during construction, the cost of nonproject lands, and cost of land purchased.

The court decided adversely to the company, Circuit Judge Waller dissenting, on the question of a payment to the state for land. The commission had disallowed the actual price of \$1,000 an acre and had allowed \$125 an acre, holding that the purchase price was excessive and unreasonable. The court was of the opinion that the price did not represent the reasonable value of the land but was grossly in excess of it. In negotiating with the governor of the state, the company had taken the position that it ought to pay its value simply as land and that this was not above \$50 an acre, while the governor took the position that he did not care what the land was worth but that the state would not sell it for less than \$1,000 an acre. That was the price, and the company could take it or leave it.

The court held that the evidence supported the commission's finding that \$1,000 an acre was excessive and unreasonable and not, within the statute, the

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actual legitimate cost of the project; but it did not hold that the price of \$125 an acre was sustained. The matter was remanded for a redetermination of cost in the light not merely of value as agricultural land, but of what the company might have been compelled to pay for the land in condemnation, taking into consideration all the elements of value properly to be considered in such a proceeding. Having found that the price paid for the land was excessive and unreasonable, it followed that the disallowance of a commission to negotiate the purchase should be sustained.

Also remanded was a determination as to the credit for electric energy generated during construction. The company contended that the commission had adopted a formula which resulted in taking part of the fair return received by the company on its unlicensed transmission and distribution property to reduce the cost of the licensed project. In addition to the attack upon the formula, the company pointed out what it claimed were numerous other errors. The court was not prepared to affirm "with the easy confidence exhibited by the majority of the commission" that it fully understood

the formula and its application. The court concluded:

We are prepared, though, to say that if the formula is a sound one and applicable for the settlement of the controversy, as the commission's words affirm, its acts deny, it should be so applied and not be abandoned for an entirely different theory, while, if it is not a sound one, it has no place in the determination of the issue presented. While not prepared then to hold, in the present state of the record, that petitioner's theory of solution is a correct one, we are in no doubt that the commission's disposition of the item is erroneous, that it amounts to no more than guessing off a substantial item of value, and that its finding in respect to it must be reversed and the matter referred back to the commission for the proper determination of the credit to be allowed.

The court also remanded for further consideration the matter of losses on purchases of land lying outside of the project boundaries as those boundaries were determined after its completion. As to this item there was doubt as to whether the matter had been fairly heard and determined on its merits and substantial justice had been done. *Alabama Power Co. v. Federal Power Commission* (No. 10262), reversing in part 43 PUR(NS) 37.



### Gas Rate Rise Wins Approval

**D**ECLARING that the power of OPA to regulate public utility rates is very slight, the U. S. Court of Appeals for the District of Columbia recently upheld the \$201,000 yearly gas rate increase allowed the Washington Gas Light Company last October by the public utilities commission.

The case was to determine the scope of OPA's power over utilities and on the outcome hung actions in other defense areas. Unless the case should be taken to the U. S. Supreme Court and reversed, OPA has suffered a major setback, it was said.

The higher court's decision, which reversed Justice F. Dickinson Letts of district court, was by a 2-to-1 vote. Justice Soper wrote the majority opinion. Chief Justice D. Lawrence Groner of the

U. S. Court of Appeals for the District of Columbia concurred, while Associate Justice Justin Miller dissented.

The PUC order was a compromise between the \$383,000 increase asked by the gas company and OPA's contention that there should be no increase. Although based partially on the sliding-scale agreement, it was \$123,000 less than that agreement would have allowed, permitting the company to make a net return of 5.58 per cent. The sliding scale is based on a 6½ per cent net return.

The appellate court ruled that Congress gave OPA only slight powers in the regulation of public utility rates. Stating that with regard to these utilities the Emergency Price Control Act granted no powers of "technical relief" to the OPA, the court ruled that the act was

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"only a great moral effect which would flow from an unwarranted opposition of a regulatory commission to the efforts of the price administrator to check inflation."

The court stated that a proviso in the legislation "clearly recognized the power of the public utilities commission of the District of Columbia and other regulatory bodies to fix utility rates, and leaves this power undisturbed except that it imposes upon utilities seeking an increase the duty to give thirty days' notice to the President's agency, and to consent to its timely intervention before any gen-

eral increase in rates in effect on September 15, 1942, can be made in a rate proceeding. A corollary of this duty of the utility is, of course, the duty of the regulatory body to accord the intervenor a fair hearing."

These duties were met, the court ruled.

In speaking of the effect of disallowing the increase in view of the company's financial position, the court felt that the lower rate would in effect harm the war effort rather than aid it. *Washington Gas Light Co. v. James F. Byrnes, Prentiss M. Brown, et al.* (Nos. 8501, 8502, 8503, 8504.)



### Merger of Utah Companies Approved Subject to Accounting Conditions

AN application by the Utah Power & Light Company for approval of the acquisition of all the property of Utah Light & Traction Company, viewed by the Utah commission as an application for authority to consolidate or merge, was granted subject to conditions relating to accounting. Whether an "acquisition" or a "merger or consolidation," the commission ruled that the transaction required its approval. As to the nature of the transaction, the commission said:

If Utah Company was merely proposing to purchase or acquire the electrical properties of Traction Company, such transaction might accurately be described as an "acquisition." Here, however, as pointed out, Utah Company proposes to acquire all Traction Company property and assets, assume or forgive all indebtedness, cancel its stock, and complete dissolution of Traction Company. The commission believes that in reality there is here involved a merger or consolidation and not merely an acquisition of property and assets.

It was said to be the plain duty of the commission to require that the accounts be stated in the manner prescribed by the Uniform System of Accounts, particularly since the Utah Company was seeking to secure \$44,000,000 from the public to refund maturing bond issues. The applicant had urged the commission to approve the merger or consolidation but at the present time to ignore account-

ing entries, for the given reason that such procedure would expedite a re-financing program.

The commission said that if it clearly stated its position with respect to the merger or consolidation, the proper amounts in the accounts of the individual companies, the *pro forma* consolidating entries, and the method whereby write-ups might be disposed of, the Utah Company and the Securities and Exchange Commission would be able to proceed without delay and without further speculation as to the effect of the commission's regulation as it would be reflected in the consolidated balance sheet of the surviving company. The transaction was proposed as a simplification of the corporate set-up of the companies involved, causing the Utah Company to cease to be a holding company under the Holding Company Act.

There was said to be doubt in the minds of the members of the commission whether the estimated saving in administrative costs outweighed the disadvantages likely to flow from the merger or consolidation and which would make the task of regulating the consolidated company more complicated and difficult. The commission continued:

As a general proposition, the commission is inclined to look with disfavor upon a plan

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which contemplates the merger or consolidation of such dissimilar utility services as are performed by an electric system and a transportation system, especially where that transportation system expects to soon complete the abandonment and retirement of street railway service and concentrate almost exclusively upon bus transportation service. It also is of the opinion that, even in the event of merger or consolidation of all properties of Traction Company with Utah Company, steps should be taken by the surviving company to divest itself of the transportation business as soon as practicable. Again as a general proposition, the commission would look with favor upon a plan to acquire or merge just the electrical properties of the Traction Company with the Utah Company.

While there was said to be no substantial benefit to be achieved by reason of the merger or consolidation *as proposed*, nevertheless a merger or consolidation would not adversely affect the public interest provided that plant accounts, revenues, operating expenses, and other accounts were properly recorded and maintained. The commission believed that a

merger or consolidation might actually expedite the refinancing program and that a merger or consolidation of the company, by the recording of proper entries on the books, would undoubtedly be of benefit to the public.

Ruling on accounting problems, the commission held that plant accounts should be charged with the cost to the utility of the property acquired; that the company could not record in plant accounts any write-ups or improper charges in the accounts of wholly owned subsidiaries and an additional write-up in connection with the merger or consolidation of the subsidiary; that "finders' fees" for "finding" a parent company as the purchaser of preferred stock might be temporarily classified in Account 151, Capital Stock Expense, or Account 107, Utility Plant Adjustments, pending further study for the purpose of ascertaining to what extent the amount represented actual cost. *Re Utah Power & Light Co. (Case No. 2652).*



### Amortization of Intangibles in Acquisition Adjustments Account Approved

A PLAN to dispose of intangibles included in Account 104, Utility Plant Acquisition Adjustments, received the approval of the Wisconsin commission with the caution that approval was not to be construed as a precedent to be followed in other cases, because the proper procedure in each instance must be governed by the facts and circumstances applicable to each utility.

The commission had previously authorized the write-off of a portion of the account to surplus and an amortization program for costs applicable to physical property. Following negotiations the company stated that its management had decided that it was desirable, purely as a wise and conservative financial policy, to acquiesce in a program of amortization of the intangible items in the Utility Plant Acquisition Adjustments Account. The commission said:

The specific proposal of the company is

that each year, commencing with 1943, one-half of the year's net income, after deducting preferred dividends and 6 per cent earnings on outstanding common stock, be used to charge off the intangible amounts in the Acquisition Adjustments Account to earned surplus. Under the proposal of the company, the amount of annual amortization is dependent on earnings. However, earnings for the past five years were large enough to have resulted in substantial amortization if the plan had then been in effect. It seems reasonable to expect that a similar condition will prevail in the future, although it is probable that excess profits taxes may reduce income so that but small current annual amortization of intangibles may result. However, taking a long-range view, it appears that the plan will result in a substantial write-off of intangibles. Further, if future conditions are such as to indicate that some modification of the amortization plan should be made, we believe that appropriate action can be taken at that time under the continuing jurisdiction over accounting matters which the statutes afford.

*Re Wisconsin Public Service Corp. (2-U-917).*

## THE LATEST UTILITY RULINGS

Similar action was taken on application by a subsidiary of Wisconsin Public Service Corporation, where it was proposed to charge against surplus an annual amount of intangibles equal to one-half the net income for the year after deducting 6 per cent earnings on outstanding common stock. The commission observed that the plan would result in some reduction in the intangibles, al-

though perhaps not at as rapid a rate as might be desired. It seemed reasonable to assume that when the parent company had completed the amortization of its intangibles, any unamortized balance on the subsidiary's books could readily be written off, and the commission expected such action would occur. *Re Menominee & Marionette Light & Traction Co.* (2-U-927).



### Service Impairment Must Be Shown to Justify Rate Increase during War

**A**N application for authority to increase gas rates was denied by the Kentucky commission with the statement:

In normal times the record made by applicant might entitle it to favorable consideration. That we do not now decide. However, times are not normal. A war emergency exists that affects the whole nation; and we do not believe that, under existing circumstances and the expressed policy of the Federal government, an increase should be allowed in utility rates unless and until it is shown to this commission that service to the consumer would be impaired. This record does not affirmatively or otherwise show that the service furnished to the consumer would be impaired if the application is not granted.

The commission also denied a motion by the applicant requesting the commission to enter an order fixing an amount for bond which the applicant desired to execute under § 278.190, Kentucky Re-

vised Statutes, so that it could put into effect immediately the proposed new rates. Counsel for the applicant pointed out that the Office of Price Administration had not availed itself of the right to intervene, except by correspondence, which was filed in the record, and that, therefore, the commission was not called upon to consider the act of Congress of October 2, 1942, or the "hold the line" order of the President of June 8, 1943. The commission disagreed with this contention, stating that it did not consider it necessary to have formal intervention. The commission thought it was its duty to give consideration to the congressional act and the President's order even though there was no intervention by the Office of Price Administration. *Re Western Kentucky Gas Co.* (Case No. 1058).



### Transportation Rate Increase Opposed By OPA Is Disapproved

**A**FTER protest by the Office of Price Administration against increased rates for transportation of property provided in a filed schedule, the Pennsylvania commission ordered cancellation of the new tariff. The company denied that the OPA had jurisdiction over the issues in the case or the right to intervene, giving as a reason that the increases were not "general increases." To this the commission replied:

The claim that OPA does not have the right to intervene in this proceeding is unfounded for the reasons that (1) respondent, in complying with the "30-day notice" and intervention acquiescence requirements of OPA under the Second Price Control Act has thereby acknowledged the interest of the OPA in rate matters, and (2) the commission did, in fact, allow intervention. Respondent's contention that the rates involved in this case are not "general increases" is not supported by the evidence. It is established that all the rates and charges for the trans-



## PUBLIC UTILITIES FORTNIGHTLY

portation of property have been increased and that the over-all increase in rates represents an average increase of 22 per cent. It is our opinion that a general increase in rates for the transportation of property was effected by the filing of Tariff No. 9.

The burden of proof was said to be upon the company, and it had made no attempt to submit evidence relating to the reasonableness of the rates or earnings in other departments of operation. The instant proceeding was limited to freight rates. A loss incurred by the freight department was not deemed to be of substantial consequence to combined operations.

The utility commission said in part:

It appears to us that the instant case presents an entirely new situation by virtue of the policy of the Federal government to stabilize price levels. It is our opinion that the disposition of this case should be made upon the basis of the general welfare and public interest during the period of war emergency and that an allowance of a general freight increase to respondent, which does not need it to preserve its corporate credit and financial stability, would be detrimental to the general welfare and public interest.

*Public Utility Commission v. Conestoga Transportation Co. (Complaint Docket No. 13881).*



### Other Important Rulings

No different measure of compensation should be required when the United States rather than a state is the taker of property for a public project, according to a ruling of the United States Supreme Court in reversing a circuit court judgment modifying a judgment of the district court awarding damages for condemnation of property on behalf of the Tennessee Valley Authority. *United States ex rel. and for the use of Tennessee Valley Authority v. Powellson*, 63 S Ct 1047.

The Colorado commission authorized an extension of motor vehicle common carrier service for transportation of livestock only from Denver to points in the area where the applicant was presently authorized to serve but denied an extension for additional call and demand service in territory where existing service was adequate, stating that it could not grant such additional authority where service is adequate, or even if inadequate where the carriers are willing to improve their service. *Re Gallegos (Decision No. 20865, Application No. 4057-AB)*.

Existing motor carriers must be given an opportunity to furnish whatever

service public convenience and necessity may require before a certificate is granted to an applicant wishing to serve the same area, according to a ruling of the supreme court of Illinois. *Chicago & West Towns Railways, Inc. et al. v. Illinois Commerce Commission*, 48 NE(2d) 320.

The Louisiana commission, in denying an application for authority to operate a motor freight line, said that the law is clear that the commission may not issue a certificate over a route where there is an existing certificate unless it be clearly shown that the public convenience and necessity would be materially promoted thereby. *Ex parte Thomas (Order No. 2963, No. 3830)*.

One who conducts a travel bureau and contracts with passengers for transportation to intrastate and interstate points and fixes rates to be charged, the places where passengers would take the conveyance, and the payment of fare may not, according to an Oklahoma court ruling, operate without a permit from the commission where the party transporting the passengers does not have a permit for operation as a motor carrier. *Booth v. State*, 137 P(2d) 602.

NOTE—The cases above referred to, where decided by courts or regulatory commissions, will be published in full or abstracted in *Public Utilities Reports*.

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# Public Utilities Reports

COMPRISING THE DECISIONS, ORDERS, AND  
RECOMMENDATIONS OF COURTS AND COMMISSIONS



VOLUME 49 PUR(NS)

NUMBER 2

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Public Service Commission of Missouri

v.

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[June 1, 1943.]

**P**ROCEEDING on Commission motion to ascertain present fair value of gas company property and to audit company's books and records; determination made and rate modification found to be unfeasible.

By the COMMISSION: This proceeding was instituted by the Commission, on its own motion, by its order issued October 11, 1938, directing its engineering department to make an inventory and appraisal of the property of The St. Louis County Gas Company, and directing its accounting department to make an audit of that company's books and records. The stated purpose of these instructions was to secure any and all information deemed necessary to determine the present fair value of the company's property, and to furnish said information for use in any proceeding involving that value which may come before the Commission.

On April 11, 1940, notices were issued advising the company, and others, that the case was set for hearing on May 20, 1940. The Commission engineers' appraisal and the Commission accountants' audit of accounts were filed on May 11, 1940, and on the same day the company filed a motion requesting that the date of the hearing be fixed not earlier than October 1, 1940, for the reason that the company had not yet completed its appraisal.

On May 16, 1940, the Commission issued its report and order on this motion, granting the request; ordering that the cause be continued to a date to be fixed by the Commission; and

also ordering that the company report to the Commission in writing, within thirty days, the progress made in preparation for the hearing, and show what further time, if any, would be required, in the exercise of due diligence, to be ready for the formal hearing. On June 15th, the company submitted a report to the Commission showing the progress that had been made, and requesting that the date for the hearing be fixed not earlier than October 1, 1940.

On July 15, 1940, the Commission received an additional progress report from the company which estimated that fourteen and one-half weeks would be required to complete preparation of their case, and on October 24, 1940, the Commission received a letter from the company stating that it had been unable to complete the work within the time estimated in its report of July 15th. Under date of October 28, 1940, the company advised the Commission that all the primary work in making the company's appraisal had been completed, and that the mechanical work of compiling and assembling it into a report was being done as rapidly as possible, and asked that a conference be held in order to agree upon a schedule to be followed by the company's representatives and the Commission's staff in completing the work to be done before

## MISSOURI PUBLIC SERVICE COMMISSION

the beginning of the hearing. The company's appraisal was finally filed on November 29, 1940.

On December 27, 1940, notices were sent to all interested parties advising that the case was to be heard on January 27, 1941. On January 14, 1941, the date of hearing was changed to February 3, 1941. In order to expedite the hearing, most of the exhibits, and the testimony of most of the witnesses, were reduced to writing and exchanged prior to the hearing.

The case was heard before the Commission over an extended period covering February 3, 4, 5, 6, 7, 1941; February 17, 18, 19, 20, and 21, 1941; February 24, 25, 26, 27, and 28, 1941. Further hearings were held April 14, 15, 16, 17, and 18, 1941; April 21, 22, 23, and 24, 1941; and May 19, 20, 21, and 22, 1941. The final days of hearing were June 16 and 17, 1941, at which time the case was submitted on the record, and the company was given until August 15, 1941, to file a brief. On July 31, 1941, the time for filing the brief was extended to September 16, 1941, and on September 12th, the time was again extended to October 1, 1941. The brief was actually received on October 30, 1941.

A voluminous record, 3,313 pages of transcript and 91 exhibits, resulted from the prolonged hearings. The following recitals, findings, and conclusions are based upon oral testimony or documentary evidence received at the hearings.

### *II. Description of the Property*

The St. Louis County Gas Company is a manufacturing and distributing

company operating in St. Louis county, Missouri, with offices located at 231 West Lockwood avenue, Webster Groves, and a gas manufacturing plant located in Shrewsbury at the intersection of Gratiot avenue and the Frisco Railway tracks. The territory covered by the company's operations includes the portion of St. Louis county adjacent to the city of St. Louis, extending from Luxemburg on the south to Ferguson on the north, and from the city limits of St. Louis westward to, and including, Kirkwood and Ladue. This area includes about 62 square miles of the 487 square miles in St. Louis county, and 250,000 of the county's approximately 273,000 total inhabitants. The following communities are served: [List omitted.]

The manufacturing and mixing plant consist of five carburetted water gas sets with a total daily capacity of about 16,200,000 cubic feet, together with the auxiliary apparatus necessary to the operation of the sets, mixing apparatus, and the compressors for forcing the gas through the company's distribution mains.

Also, located at the plant are three storage holders; one of 3,000,000 cubic feet normally filled with natural gas; one of 1,000,000 cubic feet capacity and one of 500,000 cubic feet capacity, the latter two normally being filled with manufactured gas. In addition, there are three high-pressure spherical holders of approximately 50,000 cubic feet capacity, each, located on the distribution system at Normandy, Ferguson, and Jennings.

On the appraisal date, the distribution mains consisted of approximately

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488 miles of steel and wrought iron pipe of sizes from 1 inch to 16 inches in diameter, and approximately 117 miles of cast-iron pipe from 2 inches to 20 inches in diameter. At that time, the company had 43,774 services ranging from  $\frac{3}{4}$  to 6 inches in diameter.

The company served a total of 48,160 consumers classified as follows:

Residential (Using gas for ordinary domestic purposes only) .....	41,782
Heating (Using gas also for ordinary domestic purposes) .....	4,489
Commercial, Industrial and Street lighting .....	1,889
	48,160

A mixture of manufactured gas and natural gas is distributed having a heating content of 800 BTU per cubic foot. This mixture normally consists of a manufactured blue gas containing about 290 BTU per cubic foot and natural gas containing about 970 BTU per cubic foot, the latter being purchased from the Mississippi River Fuel Corporation. The 800 BTU mixed gas leaves the plant at pressures varying from 15 to 40 pounds per square inch, depending upon the seasons and the load requirement.

The following tabulation shows the variations and increase in the company's business during the period 1933 to 1942. [Table omitted.]

## III. Corporate History

"The St. Louis County Gas Company" was incorporated under the laws of the state of Missouri, on March 27, 1912, for a term of fifty years. According to the Articles of Incorporation filed with the secretary

of state of the state of Missouri, the primary purpose for creating the corporation was to supply gas for domestic, commercial, and municipal use in cities, towns, and communities in St. Louis county.

On April 1, 1912, the company acquired the property, rights, and franchises of the St. Louis County Gas Company, incorporated in Missouri on October 13, 1903, in consideration of the assumption of all the indebtedness and obligations of the St. Louis County Gas Company.

The outstanding securities of the company at December 31, 1940, amounted to the sum of \$5,600,000 consisting of \$4,100,000 par value of common stock divided into 41,000 shares of \$100 each, and \$1,500,000 principal amount of first mortgage bonds, 5 per cent, series A, maturing April 1, 1951.

Control of the affairs and management of the company is vested in the common stock, all of which, with the exception of directors' qualifying shares, is owned by The North American Company, a New Jersey corporation with offices at 60 Broadway, New York, N. Y. The long-term debt is widely held by the public.

## IV. Estimated Original Cost

The Commission accountants and the company both submitted their estimate of the original cost of the property as of December 31, 1938, allocated between used and nonused property, property used in the merchandise department, and property allocated to Union Electric Company of Missouri.



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These estimates are shown in the following table:

	P. S. C. Accountants Ex. No. 1	Company Ex. No. 16
Total Property	\$8,793,921.10	\$8,795,259.79
Used in Gas Operations .....	8,496,379.10	8,505,187.47
Merchandise Department .....	29,376.72	29,373.41
Allocated to Union Electric Company of Missouri .....	248,478.73	247,228.49
Not used in Public Service ....	19,686.55	13,470.42

After the Commission had definitely fixed December 31, 1940 as the valuation date, both the Commission accountants and the company made audits showing the estimated original cost at that date and submitted exhibits at the hearing indicating their findings. The results are detailed as follows:

	P. S. C. Accountants Ex. No. 2	Company Ex. No. 24
Total Property	\$10,020,759.65	\$10,023,637.21
Used in Gas Operations .....	9,715,757.59	9,726,497.23
Merchandise Department .....	28,832.93	28,831.82
Allocated to Union Electric Company of Missouri .....	255,392.96	254,078.58
Not Used in Public Service ....	20,776.17	14,229.58

The evidence shows that the company has maintained its plant account on the basis of actual construction costs since the inception of the original company in 1903. When the present company in 1912 acquired the property, rights, and franchises of the original company the plant account was transferred to the books at the

same amount. At the present time the overhead allowances included in the estimates of original cost of both the Commission accountants and the company approximate 12.3 per cent of the actual construction costs. Both parties agreed this percentage was not unreasonable.

The evidence also shows that the fixed capital accounts of the company since January 1, 1915, the effective date of the Commission's first Uniform System of Accounts, have been kept in accordance with the accounting rules and regulations prescribed by the Commission. Prior to January 1, 1915, the Commission had not prescribed accounting rules and regulations, however, the fixed capital accounts for that period were audited by accountants for the Commission as of December 31, 1917. Company's Exhibit No. 24-A shows that 92.38 per cent of the company's total property existing at December 31, 1940, was installed subsequent to January 1, 1915, and under the accounting rules and regulations prescribed by the Commission, and 7.62 per cent was installed prior to January 1, 1915.

In this proceeding our problem is to determine the original cost of the gas property devoted to public service and we will confine our comments to this class of property.

The estimated original cost of the property used in gas operations as presented by the company (Company's Exhibit No. 24) exceeds such estimated original cost of the Commission accountants by \$10,739.64. This relatively small difference is explained by the following items:

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1. Elimination by Commission accountants from fixed capital accounts of the salaries of employees in the New York office	\$2,814.39
2. Elimination by Commission accountants of the cost of a well at the Shrewsbury plant on the assumption it was no longer in use	1,388.46
3. Difference between Commission accountants and company in the percentages applied to determine the cost of part of land at Shrewsbury plant not used in public service	6,536.78
	<hr/> \$10,739.64

We shall discuss each of the preceding items separately.

## *New York Office Salaries*

The Commission accounts transferred to Deductions from Gross Income salaries of employees in the New York office aggregating \$9,311.33 of which \$2,877.56 was eliminated from the fixed capital account as general construction overhead for the years 1938, 1939, and 1940. Of this amount \$2,814.39 was eliminated from property used in gas operations.

At the hearing a company witness stated the New York office salaries were charged up to the end of 1940, but that they are no longer charged to, or paid by, the company. He agreed that the Commission accountants were correct in making this adjustment. We shall, therefore, not include these overhead salaries in our finding of original cost.

## *Shrewsbury Gas Plant Well*

[1] The Commission accountants, upon the advice of the Commission engineers, classified as not used in public service the cost of a cooling tower and well at Shrewsbury Gas Plant, together with the general construction overheads applicable thereto. The total amount of the deduction was \$3,422.63.

The company presented evidence at the hearing showing that while the cooling tower is no longer used in public service, the well underneath the tower is used as an emergency water supply in the operation of the Shrewsbury plant.

Upon such evidence we shall include in original cost the cost of the well, including overheads, amounting to \$1,388.46.

## *Elimination of Land at Cost*

[2] The Commission accountants allocated the cost of land at the Shrewsbury Gas Plant in accordance with percentages supplied by the Commission engineers. This resulted in a difference of \$6,536.79 in the original cost of land used in gas operations as found by Commission accountants and the company.

The courts have found, in proceedings such as this, that the just and proper procedure is to consider land at its present fair market value in determining the present fair value of the property. The total estimated original cost of land, before allocation, was \$92,444.06. Of this amount, the Commission accountants allocated \$61,893.84 to be used in Public Service and the company, \$68,430.63.

Our findings of the present fair market value of land is presented in another chapter. We shall, therefore, eliminate the cost of land included in the estimate of original cost.

## *Conclusion*

After consideration of all the evidence pertaining to the estimated original cost of the property of the company, taking into account all ad-

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justments hereinbefore enumerated, we find the original cost of the property used in gas operations at December 31, 1940, including overheads but excluding land, to be \$9,655,252.21.

We shall consider this finding in our subsequent determination of the present fair value of the property.

### *V. Land*

#### *General*

We have before us three appraisals of the land owned by the St. Louis County Gas Company. Mr. Hugh A. Bergs, a St. Louis county real estate broker, and president of the firm of Meir, Comfort, Bergs & Judge, Inc., prepared an appraisal for the Commission engineers; and Mr. William W. Butts and Mr. Edward M. Thornhill, real estate men in St. Louis, submitted appraisals in behalf of the company. It appears that all the appraisers are competent to give expert opinion on the values of real estate in the vicinity of the company's holdings. The estimated fair market values included in the company's appraisal were determined from the average of the opinions submitted by Messrs. Butts and Thornhill. [Detailed description of lands and their appraisal, without discussion of regulatory principles, omitted.]

#### *Easements*

The Commission engineers and company engineers used identical amounts for easements, \$8,872, representing an estimated cost for 408 easements on the basis of the actual cost to the company for 148 easements acquired during the period 1935-1938, inclusive. The amount of \$8,872 will be adopted as the present fair market value of easements.

### *Summary*

Our findings are summarized as follows:

Fee Land	
Parcel No. 1	
General Office Land .....	\$22,500
Parcel No. 2	
Shrewsbury Site .....	32,799
Parcel No. 3	
Shrewsbury Site	
North Portion .....	17,451
South Portion .....	9,200
Parcel No. 4	
Shrewsbury .....	750
Parcel No. 5	
Normandy Holder Site .....	2,800
Parcel No. 6	
Jennings Holder Site .....	600
Parcel No. 7	
Ferguson Holder Site .....	1,200
Total .....	\$87,300
Easements .....	\$8,872

### *VI. Cost of Reproduction*

#### *General*

Appraisals of the company's property as of December 31, 1938, were prepared by Commission engineers and company engineers. Commission engineers' inventory and appraisal, Exhibit CE-1, was prepared under the direct supervision of M. H. C. Brockhoff, a member of the Commission staff, who testified in regard to the appraisal. The company engineers' inventory and appraisal, company Exhibit 1, was prepared under the direct charge of Mr. M. M. Burley, valuation engineer for the Union Electric Company of Missouri, and The St. Louis County Gas Company. Company engineers were assisted by Mr. E. B. Black of the firm of Black & Veatch, consulting engineers, who aided in the determination of certain elements of cost and accrued depreciation.

#### *Inventory*

The evidence shows that, except for

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the buildings, all of the inventory was made by groups composed of an equal number of Commission and company engineers. The buildings were inventoried by William H. & Nelson Cunliff Company, a St. Louis contracting firm retained by the Commission to prepare and price the inventory. The building inventory thus prepared was submitted to the company engineers for their approval or correction.

All available information was utilized to prepare as accurate an inventory as possible. The details were secured from company records and from actual field count of quantities. The company engineers checked the quantities finally adopted by the Commission engineers, making some small adjustment, and with these minor exceptions, the inventory quantities were agreed upon.

## *Commission Engineers' Appraisal*

Except for structures the Commission engineers assumed as a general theory that the company would act as its own general contractor, and would build the property in a single comprehensive program rather than by piecemeal construction. They prepared their appraisal by the application of unit costs as of December 31, 1938, specifically prepared for The St. Louis County Gas property.

The Commission engineers claim to have used labor rates for mains, services, meters, etc., equal to or higher than those paid by the company for similar work. Union labor rates and conditions were used for all skilled craftsmen for work at the company's Shrewsbury gas plant, except for the large underground gas pipe line, where

the Commission engineers used the same labor rates as used on laying mains in the distribution system.

Performances, as used in their appraisal, are based on the engineering department's experience over a long period of years in other appraisals of utility properties in the state of Missouri, during which time large numbers of work orders of all kinds have been analyzed and various performances established. Direct labor overheads were applied to provide for the items of direct supervision, tool expense, miscellaneous expense, omissions, and contingencies, workmen's compensation, public liability and property damage insurance, social security, Federal old-age benefits, and unemployment compensation taxes.

Quotations were obtained from manufacturers on all items of equipment which could not be priced from catalogues, manufacturers being requested to furnish the same prices which they would quote the company if it were actually making purchases on December 31, 1938. On items usually purchased erected, the manufacturers were requested to quote on that basis, taking into consideration contemporaneous erection of more than one piece of the same kind of equipment. Requests for quotations were sent out by the Commission engineers and copies of the replies were given to the company. For such items as could be priced from catalogues, both standard and preferential discounts were taken into consideration.

## *Company Engineers' Appraisal*

In the company engineers' cost of reproduction appraisal, the use of contractors was assumed for the construc-

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tion of all buildings, equipment foundations, pits, etc., and for the installation of all equipment at the gas plant and elsewhere, as well as for all plant piping, and all electrical apparatus installation and wiring.

For the remaining items of property, unit costs were prepared and applied to the quantities in the inventory to obtain the direct cost portion (total excluding general overheads) of the appraisal. In the original appraisal (Company Exhibit No. 1), the average wage paid on December 31, 1938, to each type of employee on the company's payroll engaged in distribution construction work was used, to which was added a percentage to cover the estimated cost to the company for vacations with pay which are given to these employees, for employee's welfare expenses, and for old-age pensions.

A supplemental company estimate (Company Exhibit No. 9) was also prepared using union wage rates instead of company wage rates.

Mr. Burley testified that the performance in labor estimates for items included in his appraisal for Accounts 321-327, inclusive, have been based, in so far as determinable, upon the experience of the company and its practices as developed over a period of thirty-five years' operation in St. Louis county. To the direct labor costs were added direct labor overhead percentages to cover the cost of such items as field supervision, tool expense, miscellaneous expense, omissions and contingencies, payroll taxes and payroll insurance for workmen's compensation, public liability, property damage, and occupational disease.

It appears that material prices used by company engineers, except in a few instances hereinafter mentioned, were the same as those used by Commission engineers. To the cost of materials, the company engineers added the 2 per cent Missouri sales tax, even though the materials were not assumed to be purchased in Missouri. In addition, direct material overhead percentages were added to provide for purchasing expense, store expense, miscellaneous expense, and omissions and contingencies.

All buildings, equipment foundations district regulator pits, and other structural items were priced for the company by Fruin-Colnon Contracting Company.

For the gas plant, the cost in place of certain major apparatus, such as water gas sets, holders, boilers, oil tanks, stacks, etc., was taken at the amount quoted by the manufacturer or fabricator. Where erection was included in the amounts quoted, company engineers had the estimates reflect all field erection costs on an A. F. and L. labor base. Company engineers further assumed that the company, in acting as its own general contractor, would purchase certain other major pieces of apparatus, and the cost of field erection of such items was estimated by local contractors. These contractors were: (a) Sodemann Heat and Power Company and Mid-City Plumbing and Engineering Company, who priced all labor for the plant piping and the more common material items included in it. The Sodemann Company also estimated the installation cost of all items and equipment



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where that cost was not covered by the quotations of the manufacturers or fabricators. (b) S. C. Sachs Company priced the installation of all major electrical apparatus (it was considered that such apparatus would be furnished directly by the gas company); and priced both labor and material for the installation of all power wiring and other electric cir-

cuits, except building lighting which was included in the building estimates of Fruin-Colnon Contracting Company.

## Comparison

A summary of the appraisals thus prepared by the respective engineers are set forth in the following tabulation:

Account	P. S. C. Engineers	Company Engineers	Difference
<b>Direct Costs</b>			
302 Franchises .....	\$ ..... \$8,494	\$8,494	\$8,494
311 Land <sup>1</sup> .....	57,524	79,143	21,619
312 Structures .....	968,277	1,052,409	84,132
313 Boiler Plant Equipment .....	107,074	116,446	9,372
318 Water Gas Sets .....	296,575	352,624	56,049
319 Purification Apparatus .....	146,901	162,432	15,531
320 Accessory Works Equipment .....	507,441	618,290	110,849
321 Measuring & Regulating Equip. ....	25,862	28,384	2,522
322 Mains .....	2,664,875	4,392,229	1,727,354
323 House Regulators .....	221,393	233,357	11,964
324 Services <sup>2</sup> .....	1,062,910	2,415,292	1,352,382
325 Consumers' Meters .....	645,575	676,837	31,262
326 Consumers' Meter Installation .....	80,982	102,744	21,762
327 Street Lighting Equipment .....	713	1,051	338
329 General Equipment .....	205,252	221,188	15,936
<b>Direct Costs (Total) .....</b>	<b>\$6,991,354</b>	<b>\$10,460,920</b>	<b>\$3,469,566</b>
<b>General Overheads</b>			
Preliminary, Organization, etc. ....	\$168,215	\$253,802	\$85,587
Engineering & Superintendence .....	336,429	507,605	171,176
Taxes During Construction .....	16,965	30,694	13,729
Interest During Construction .....	333,957	679,350	345,393
<b>Total—General Overheads .....</b>	<b>\$855,566</b>	<b>\$1,471,451</b>	<b>\$615,885</b>
<b>Materials and Supplies .....</b>	<b>\$122,374</b>	<b>\$126,871</b>	<b>\$4,497</b>
<b>Cash Working Capital<sup>3</sup> .....</b>	<b>187,122</b>	<b>251,422</b>	<b>64,300</b>
<b>Total—Used in Gas Operations .....</b>	<b>\$8,156,416</b>	<b>\$12,310,664</b>	<b>\$4,154,248</b>

<sup>1</sup> After corrections by Commission Engineers (See Exhibit CE-15).

<sup>2</sup> Includes the cost of 1,000 feet (of a total of 3,202,763 feet in the system), which should be deducted.

<sup>3</sup> Commission accountants also offered Exhibit CA-4 recommending \$66,445.54 for cash working capital.

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A "break-down" showing an analysis of the \$3,469,566 amount that the company engineers are in excess of the Commission engineers for direct costs is summarized as follows:

<b>Materials Costs</b>	
Revision in quotations ..	\$51,940
Unaccounted differences	124,232
Contractors' estimates ..	7,383
Compressor costs .....	3,110
	<hr/>
Sales Tax (estimated) .....	\$186,665
Labor .....	83,594
Direct overheads .....	1,726,356
Equipment .....	753,272
Customers contributions .....	149,978
	<hr/>
<b>Other Differences</b>	496,880
Franchises .....	
Land .....	\$8,494
Yard paving .....	21,619
Preliminary tune up of plant .....	5,657
Well under cooling tower .....	2,892
Additional hauling .....	3,567
Permits and inspection fees .....	18,232
	<hr/>
	12,360
	<hr/>
	\$72,821
	<hr/>
	\$3,469,566

Inasmuch as some of the differences classified in the above table, such as revisions in quotations, sales tax, labor, direct overheads, customers' contributions, permits, and inspection fees, are scattered through a number of accounts, it appears convenient to discuss them as an item with respect to the entire appraisal instead of giving their effect on each of the various accounts. We will hereafter follow that procedure.

### *Revisions in Quotations*

The record shows that the company engineers did not in every case use the original quotations received from manufacturers and erectors of miscellaneous items of equipment. In a certain instance, a company official inquired of the manufacturer to see if

the prices, as originally submitted, were sufficiently high and, in others, another official wrote and specified that estimates provide for union labor. After receipt of inquiry from the company, asking if the labor estimates were based upon union scale and, if not, that such an estimate be prepared, the supplying companies almost universally agreed that union labor would be required. With reference to the case wherein the company requested a check of the prices submitted, with the contention that quotations as received were too low, the record shows that no requests were made for a downward revision.

Honest errors in quotations, such as errors due to misunderstanding, should, of course, be corrected. But quotations given by manufacturers, when given for appraisal purposes only and not for the purpose of actually attempting to secure business, have a tendency to be high.

We are of the opinion that equipment quotations used by Commission engineers were ample at December 31, 1938.

### *Sales Tax*

[3] Company engineers, upon advice of the company's attorneys, included sales tax on all items, regardless of where purchased, for the stated reason of simplification in converting 1938 costs to 1940 levels. Taxes were not collected at December 31, 1938, on materials purchased outside the state, and the inclusion in an appraisal as of that date of any items not then required to be paid is obviously error. The Commission engineers have added sufficient sales tax to their appraisal and we shall exclude the company claim.

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## *Distribution System Labor*

[4] The difference in the amounts of labor included in the distribution system accounts in the two appraisals cannot be attributed to a single factor, but is a combination of variations in wage scales, in labor performances, and in the methods of construction adopted by the respective engineers. At this time, we shall discuss only the wage subjects, as adopted, leaving the subjects of performance and construction procedure to be given consideration with the respective accounts involved.

The principal labor rates are set forth in the following tabulation:

## LABOR RATES

	P. S. C. Rate	Company Base Rate	Company with Vacation and Welfare
Compressor operator .....	.805 hr.	.917 hr.	.970 hr.
Trenching machine operator .....	1.00 "	.963 "	1.019 "
Pipemen (mains & services) .....	.805 "	.805 "	.852 "
Caulker .....	.89 "	.89 "	.942 "
Welder .....	1.15 "	1.138 "	1.204 "
Fitter (meter sets) .....	.90 "	.922 "	.976 "
Truck driver .....	.805 "	.805 "	.852 "
Fitter helper .....	.75 "	.790 "	.836 "
Common labor .....	.63 "	.63 "	.667 "
Foreman .....	1.16 "	1.09 "	1.154 "
Caulker, C. I. pipe .....	.89 "	.95 "	1.005 "
Welder's helper .....	.63 "	.63 "	.667 "

From a study of the above table, it will be noted that the rates as used by the Commission engineers compare favorably with the company base rate, and that the principal difference is the allowance made by company engineers to provide for vacation, employees' welfare, and old-age pensions, as previously described under the general description of the company engineers' appraisal. The percentage added was 5.83 per cent. This was intended to cover the actual cost to the company for vacations with pay which are given these employees, and the actual cost to the company (as measured by

a 2-year test period) of the above mentioned benefits for the employees engaged in construction work. It is analyzed as follows:

Vacation wages .....	3.15%
Employees' welfare .....	2.18
Old-age pension .....	0.50
Total .....	5.83%

Mr. Burley contended that if these benefits were not furnished, the money equivalent, or perhaps more, would have to be paid directly to the employees to enable them to secure these benefits for themselves. In other words, if vacations with pay were not available to the men, doubtless they would demand higher rates of pay

while they are working, to enable them to take such vacations and still maintain total yearly income no lower than the present levels. A similar line of reasoning was followed for employees' welfare and old-age pension.

Mr. Brockhoff argued that he did not think that the company would provide a pension system for employees on a construction job.

While there is some merit in the contention of the company on this question, still the Commission engineers are undoubtedly right in assuming that the company's operating practice would not necessarily be followed

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on a construction project. We will consider, and give some weight to, the company's position when determining the whole question of labor rates at a later point in this discussion.

### *Effect of Union Labor*

[5] The basic theory of applying wage scales as used by the company engineers in their original appraisal (Company Exhibit No. 1) was similar to that used by the Commission engineers. Subsequently, however, the company introduced Exhibit No. 9, which shows estimates of reproduction cost and reproduction cost less depreciation after using union wage rates for labor on all types of construction. Exhibit No. 9 shows an increase of \$2,747,722 in cost of reproduction and of \$2,411,359 in cost of reproduction less depreciation, as of December 31, 1938, when compared to Company Exhibit No. 1.

Mr. Burley testified at length in support of the claim that union wage scales should be used exclusively, even though such rates were in excess of the rates actually paid by the company. He contended, among other things, that under theoretical reproduction higher wage rates would be required to attract sufficient men to construct a property such as the St. Louis County Gas Company, than are paid under operating conditions, because the length of employment on the construction project would be limited.

The company devoted considerable space in its brief to a discussion of Union v. Non-Union labor rates in which it lays stress on a general consideration of the development, growth, and increasing strength of the labor movement throughout the United

States. Much of this discussion, however, is applicable to the type of unions employed in industrial and factory operations, rather than with the unions with whom we are here concerned. Further, the brief appears to indulge in conjecture when predicting the effect of the labor movement on the local situation.

This Commission has heretofore considered, and passed upon, the question of whether to adopt union or non-union labor rates in making appraisals. In *Public Service Commission v. Union Electric Light & P. Co.* (Mo 1937) 17 PUR(NS) 337, 357, we refused to allow an additional amount claimed by the company to make our appraisal reflect all union labor rates.

The adoption of union labor rates, as suggested by the company engineers, for the construction of the distribution system in the present case is not justified. We take cognizance of the fact that large utility companies can and do carry out construction work using outside union men jointly with their own employees, and paying each group a different wage scale. We have always attempted to make our estimates of value stay within the bound of reality. We feel that our engineers, in adopting part union and part non-union labor rates for utility construction in the St. Louis area, have followed a reasonable course, and have complied with our previous decisions.

We are of the opinion, however, from a consideration of the testimony, that the rate used by the Commission engineers for common labor should be increased to 65 cents per hour, and we will modify their estimate to provide for such an increase in the ac-

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counts involving the use of common labor.

*Direct Labor and Material Overheads*

A satisfactory comparison of this item is only possible on Accounts 321-329, inclusive. On the remaining accounts (312-320, inclusive), the pricing in the two appraisals is not on the same basis, and as a result, a comparison of direct overheads would be meaningless.

*Direct Labor Overheads—Accounts 321-329*

[6] The direct labor overheads include items for direct supervision; tool expense; miscellaneous expense; omissions and contingencies; workmen's compensation, public liability, and property damage insurance; and social security, Federal old-age benefits, and unemployment compensation taxes. The amounts included by the respective engineers vary somewhat for each account. On the total of the direct labor in the accounts involved, the Commission engineers allowed 28.0 per cent as compared with 30.75 per cent as included by the company engineers, and, in a general way, this difference may be broken down as follows:

	Commission Engineers	Company Engineers	Difference
Field supervision .....	4 %	5 %	1 %
Tool expense .....	3	3.5	0.5
Miscellaneous expense .....	1.5	3	1.5
Property damage insurance .....	0.90	1.16	0.26
Total .....			3.26%

With reference to direct labor overheads generally, Mr. Black testified that he was in full agreement with the method followed by Burley for the company, and that a comparison with

similar allowances that Black had made in other appraisals lead him to the conclusion that the total percentages as used by Burley were fair and reasonable.

On the subject of field supervision, Brockhoff testified that, although he had used 5 per cent on a previous gas appraisal, on this particular job, he had made a detailed analysis of 26 work orders, and found that the supervision above that of gang foreman averaged 3.82 per cent, and therefore considered that 4 per cent was apparently correct. He further testified that the company's records show that direct supervision for installing services amounted to 5 per cent of direct labor, but that piecemeal construction of services required greater supervision than would wholesale construction, because of scattered locations and a corresponding loss in travel time. Accordingly, he assumed that 4 per cent would also be correct for services. He used 3 per cent for setting consumers' meters, which agrees with percentages used by Commission engineers in previous appraisals, and in his opinion, is correct.

Mr. Burley estimated field supervision at 5 per cent for that portion of all labor which was not priced by con-

tractors. As a basis for his percentage, he analyzed 78 distribution system work orders. (Described and treated more fully under "Mains.") That analysis showed 3.33 per cent rep-



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representing the cost of general foreman, and men recording field book data, but not including the cost of a field superintendent, assistant superintendents, timekeepers, watchmen, water boys, and material hustlers, which are not normally used by the company in its piecemeal construction, but all of which Burley intended to be included in his final allowance for field supervision. He contended that 1.67 per cent was the proper allowance for these latter additional items of expense, and that the total allowance of 4 per cent as used by the Commission engineers is inadequate to make a provision for the items not generally included in company overheads. We are of the opinion that Brockhoff's provision is adequate and shall adopt the allowances made in his appraisal for field supervision.

### *Tool Expense*

[7] Mr. Brockhoff testified that the company records showed that an allowance of 3 per cent to the tool reserve was slightly inadequate, but that an allowance of 4 per cent tended to build up a reserve. On the basis of that information, Brockhoff, assuming that reproduction conditions would require less tools, adopted 3 per cent. He was also of the opinion that in buying all the small tools at one time, the company would secure better prices than are now obtained on piecemeal construction.

Mr. Burley estimated that tool expense for all construction work outside of customers' premises, which was assumed not to be done by contract, would be 3.5 per cent of the direct labor cost, and 1 per cent for construction work inside customers'

premises. The 3.5 per cent figure was adopted by Burley after an analysis of the charges to the tool reserve for the actual tool cost for all outside distribution system construction for the period 1934-1939, inclusive.

An allowance of 3 per cent is considerably higher than has been used in similar cases, and we are of the opinion that it is adequate herein.

### *Miscellaneous Expense*

[8] For the item of miscellaneous expense, which includes the labor of installing and removing items which are not a part of the physical property but which are a necessary part of the construction cost, and also includes such things as small excavations, barricades, temporary bridges over openings, etc., Commission engineers used 1.5 per cent for mains and 2 per cent for services which was in accord with previous appraisals. Company engineers used 3 per cent to cover the same item, except that they used 1 per cent on meter and regulator testing. Burley stated that the 3 per cent figure is often used and is similar to allowances made by Commission engineers on several appraisals in recent years.

The allowance to be made for this item is largely one of judgment, and although Black concurred in Burley's estimate, we are of the opinion that the allowance made by the Commission engineers is sufficient to provide for the items included.

### *Omissions and Contingencies*

[9] The same allowances were made by both groups of engineers for this item, except for the accounts involving the setting and testing of con-

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sumers' meters for which the Commission engineers used 1.5 per cent and the company engineers used 3.0 per cent for setting and 0.5 per cent for testing. The allowance to be adopted is largely a matter of judgment, and the one used by the Commission engineers should be sufficient.

### *Payroll Insurance*

[10, 11] The respective engineers used like percentages for workmen's compensation and public liability insurance. They differed slightly on property damage insurance, for which the company engineers used \$2,000/\$10,000 limits, which is in accord with company practice, whereas Commission engineers used \$1,000 limit. This caused a difference of 0.26 per cent in the mains account. In this instance, the practice followed by the company appears to be a reasonable assumption for reproduction, and we are of the opinion that the \$2,000/\$10,000 limits should be used. The company engineers also included occupational disease allowance, which cost 0.01 per cent. We see no need for this allowance.

### *Material Overheads*

#### *General*

As in the case of direct labor overheads, both groups of engineers applied percentages which they deemed proper to cover various items of cost generally included as material overheads. The composite allowance by the Commission engineers was 5.37 per cent as compared to 6.85 per cent used by company engineers. Most of this disparity is found in the items of purchasing expense, and omissions and contingencies.

### *Purchasing Expense*

[12, 13] Mr. Brockhoff testified that a percentage of 0.5 per cent was applied to all items purchased including equipment installed by manufacturers. He further testified that the St. Louis County Gas Company charges 0.75 per cent on all items issued through stock, and that on items purchased for particular jobs and not issued through stores, a charge of 0.75 per cent is made, with a maximum of \$25. For that reason he concluded that 0.5 per cent, which has been used by the Commission engineers in other appraisals, was about right.

Mr. Burley estimated this item to be 1 per cent after a consideration of the size of the job, the length of the construction period, the amount and quality of material to be purchased, and the probable total cost of maintaining the purchasing organization. He also testified that a study was made of the actual cost to the company, and that for the years 1938-1939, purchasing expense was 1.27 per cent of all materials purchased, including materials going through stock and those not going through stock.

We cannot adopt Burley's study of actual cost for this item, as it reflects purchase expense for acquiring small lots of materials needed in operations. We are interested in large scale buying costs. An allowance of 0.5 per cent has been so well established before this Commission as a proper one to be used for purchasing expense in a cost of reproduction appraisal, that we are unwilling to change it without a more conclusive showing than was here made.

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### *Stores Expense*

[14] The Commission engineers used 3 per cent for stores expense for most of the material in the distribution system, but used 2 per cent on pipe; while company engineers used  $3\frac{1}{2}$  per cent for everything except pipe, and  $1\frac{1}{2}$  per cent on pipe. As a result, the differences tend to offset one another. We shall adopt Commission engineers' allowance.

### *Miscellaneous Expense*

[15] Miscellaneous expense is a judgment item used to provide for the cost of material which cannot readily be classified, and includes not only items which are used up in construction and are not now in evidence as part of the present in the property, but also small items of material which are property but are not listed in the inventory because the cost of describing, listing, and pricing in detail tends to equal or exceed the cost of such items. We are of the opinion that Commission engineers' allowance of 1 per cent for miscellaneous expense is sufficient.

### *Omissions and Contingencies*

[16] Commission engineers used an allowance of 2 per cent for mains, as compared with 3 per cent by company engineers; and of 1 per cent on plant equipment, as compared with 2 per cent by company engineers. These allowances are also matters of judgment, and those used by Commission engineers are in accord with previous allowances and follow our prior decisions. We shall adopt the Commission engineers' percentages.

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### *Customers' Contributions*

[17, 18] In preparing their appraisal, the Commission engineers deducted from the cost of reproduction of mains, services, meters, and meter installations, the percentage of these items for which contributions had been made by the utility's customers. In this process they endeavored to follow the findings of the Commission, as given in the Commission's report and order of November 30, 1934, in the Laclede Gas Light Company Case, No. 5217, 21 Mo PSC 456, 7 PUR (NS) 277. The amounts of nonrefundable customers' contributions held by the company at December 31, 1938, was \$604,337.47, of which the Commission engineers deducted \$496,880. The amount deducted by the engineers was less than actual contributions, due to translating from the original cost to the reproduction cost basis.

Company witnesses made no deduction for such contributions on the grounds that the property constructed with the contribution was actually used and useful and is owned and maintained by the company. It was further contended that the company theory was in accordance with the classification of accounts prescribed by this Commission. In support of their contention, the company introduced Exhibit No. 13, in which are set out certain portions of the company's rules and regulations on file with this Commission governing extensions of mains and services.

In response to cross-examination relative to the reason for the company's rules requiring customers to make contributions toward the cost of

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laying mains, the company's treasurer, Mr. Sanford, testified that " . . . it is to equalize the company's investment between customers. . . ." He stated that if there were no such rule that " . . . it would unduly increase our investment per customer and would have an adverse effect upon our rates. . . ."

Customers' contributions is not a new subject before this Commission. In its decision of February 9, 1929, Case No. 3974, *West St. Louis Water & Light Co. v. Public Service Commission*, PUR1929B 612, we find that the Commission deducted consumers' deposits on hand from the fair value findings. Again, in *The Laclede Gas Light Company Case*, *supra*, this Commission adopted the procedure followed by a company engineer and deducted from the cost of reproduction of services a portion of the actual contributions.

In its brief the company argues from our decision in the *Aluminum Goods Case* [PUR1927B 1] that these contributions should be included, but there is a decided difference between donations voluntarily given by outsiders and those required to be given by consumers. We think Mr. Sanford's testimony quoted above clarifies this point, for if consumers' contributions are required to prevent undue increase in investment per consumer, and to obviate adverse effects on rates, then it is patently improper to add those contributions to the rate base thus increasing the value and increasing the rates.

To calculate rates on a base which includes the property purchased by such contributions is not only unfair to the customer who made the con-

tribution, but also to the remaining noncontributing customers who would thereby subsequently be required to assist in paying return, depreciation, and operating expenses, on property required to serve an admittedly unprofitable customer.

We will not require the consumers to pay to the company a return on the consumers' own investment. These contributions will, therefore, be deducted in making our finding of fair value.

Hereinafter, we shall set forth the company's operating expenses which will include the cost of maintenance and taxes on all property. Our recommendation for an annual depreciation allowance will be based upon the original cost of all property used in public service, so that a sufficient reserve will be set aside to provide for the retirement and replacement of all property so used, including that built from contributions.

Consequently, the company will be fairly treated if customers' contributions are deducted from the rate base. No inequity to the company on account of insufficient return results for the reasons that, (1) the capital required is derived from contributions, and (2) no additional investment is required on the part of the company.

In view of the supposed conflict relative to the mechanics of making the deduction, we are confronted with a problem as to whether the deduction should be made in the cost of reproduction before the addition of overheads (in accordance with Commission engineers' appraisal), or whether the entire property should be considered as a whole until after a fair value finding is reached and the exact amount

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of the contributions deducted at that time, as was done in the West St. Louis Water and Light Company Case, *supra*.

The problem now before us is to convert the contributions as made, to a cost of reproduction basis. The method used by the Commission engineers fails to provide general overheads for the reproduction of the entire property. In event of complete reconstruction, the company would be required to design and construct the entire plant, and complete general overheads must be included.

After all the above discussion, we will treat customers' contributions as follows:

(a) Original cost will be found for the complete property, including contributions.

(b) Cost of reproduction will be for the same property.

(c) In the finding of fair value for rate-making purposes, the Commission will make a proper deduction for such contributions, the amount of said deduction tending toward the actual original contribution or toward its reproduction equivalent in accordance with the weight given original cost or cost of reproduction in the finding of fair value.

### *Permits and Inspection Fees*

The amounts included in the respective appraisals for the above item are shown in the following tabulation: [Table omitted.]

The allowance for permits for services in St. Louis county is the cause for most of the difference, the company engineers having assumed a cost of \$7,602, as contrasted with the Commission engineers' assumption that

the service would be installed along with the mains, and that no additional allowance was necessary. In accordance with our discussion on services to follow, the latter is a reasonable assumption.

The evidence shows that the Commission engineers' information relative to Clayton and Maplewood was in error, for the company actually paid permit and inspection fees at those points.

Deducting \$7,602 from company engineers' estimate and adding to the Commission engineers' totals the company engineers' estimates for Clayton and Maplewood, brings the two estimates less than \$500 apart. Inasmuch as there is considerable doubt regarding the exact method of determining payments in event of a complete reproduction, we are of the opinion that \$17,500 is a reasonable allowance and shall adopt it, assuming \$4,500 for mains and \$13,000 for services.

### *Account 302—Franchises*

[19] The company engineers included \$8,494 in their appraisal for the above item, stating that the amount of money included is the original cost to the company, and contending that a sound basis upon which to estimate for the cost of reproduction appraisal is to adopt the original cost figure.

The Commission engineers did not set forth a specific allowance for franchise, in fact, Brockhoff admitted that he had given no consideration to this item.

We believe that in making a reproduction cost appraisal, it would be improper to include an estimated cost for franchises, as the very nature of the item would lead to excessive specula-



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tion and the estimate could have no sound basis. However, where, as in this case, the actual cost is known and where those actual costs represent reasonable expenditures for securing franchises, we are of the opinion that it is proper to include the original cost of franchises in the reproduction appraisal. Accordingly, we will adopt the company figure for this account.

## *Accounts 312 to 320, Inclusive*

A comparison of the pricing in these accounts is quite involved. The estimates of cost for buildings and foundations were prepared for the respective groups of engineers by independent contractors, and the results of their estimates are spread through nearly all of the above accounts, the record not disclosing by accounts the

close certain explanations which we shall review under appropriate headings.

## *Buildings, Equipment Foundations, Etc.*

The estimated cost of reproduction for buildings and foundations as included in the Commission engineers' appraisal was prepared by William H. & Nelson Cunliff Company. The appraisal of the same group of properties was prepared for the company engineers by the Fruin-Colnon Contracting Company.

The two appraisals were based upon an agreed inventory of quantities, and are comparable; the figures submitted by the respective contracting companies being set forth in the following tabulation:

	Cunliff	Fruin-Colnon
Total direct cost .....	\$511,744	\$548,991
Job overheads—5% .....		27,442
Cost of contractor .....		\$576,433
10% Margin including profit .....		57,625
Cost to utility .....		\$634,058
1% Performance bond .....		6,340
9% Overhead profit and performance bond .....	46,057	
Total cost .....	\$557,801	\$640,398

amount thus priced. The pricing of equipment and its installation was based to a certain extent upon manufacturers' quotations which included cost of erection; for other items not erected by the manufacturer, Commission engineers prepared estimates assuming installation by company forces, whereas the company engineers assumed installation by contractor, whether the equipment and materials were furnished by either the company or the contractor. The result is that a detailed analysis of the differences is not possible; but the record does dis-

In general, the appraisals were prepared in like manner and include complete material costs, complete labor costs, labor and material overheads, insurance, omissions and contingencies, contractor's profit, and the cost of a performance bond. As will be noticed from a study of the above table, one of the principal differences is in the allowance made for overhead and contractor's profit. In addition, the Fruin-Colnon Company included state sales tax on all purchases of material regardless of whether they were made in the state of Missouri.

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We must eliminate the excessive sales tax in accordance with our previous discussion. In other respects, the estimates were made on the same basis, i. e., as if the respective parties were submitting actual proposals, and the differences, in direct costs and in overhead and profit, are not greater than usually found when bids are taken for construction work. We are of the opinion that the Cunliff estimate as used in the Commission engineers' appraisal is fair and reasonable, and, accordingly, shall adopt the Commission engineers' appraisal to the extent of the pricing by the Cunliff Company.

### *Omission of Yard Paving*

[20] The record shows that the Commission engineers inventoried yard paving at the Shrewsbury plant and arrived at a quantity of 5,107 square yards, but that inadvertently only 251 square yards were included in the appraisal. Company engineers, in examining the Commission engineers' work, overlooked this error at the time of their original check, but prior to the preparation of their reports, they discovered it and included the additional 4,856 square yards in their appraisal.

Mr. Brockhoff stated that the addition of the quantity to his report would increase the cost of reproduction by \$8,158, but claimed that this type of error might properly be considered as being included in his allowance for omissions and contingencies. Burley contended that this is not the kind of item contemplated in an allowance for omissions and contingencies. We agree with Burley and shall increase the Commission engineers' appraisal by \$8,158, of which 69.34

per cent, or \$5,657, is assigned to property used in public service.

### *Well under Cooling Tower*

As shown on page 251 of Commission Engineers' Exhibit 1, a cooling tower and well at the Shrewsbury plant, having a reproduction cost of \$7,566, and a cost of reproduction less depreciation of \$3,472, were classified as property not used in public service, for the reason that the cooling tower was no longer used.

Company engineers included the well in property used in public service, Burley claiming that it has been used for several years as a reservoir, in event city water supply is shut off, and also as an emergency supply for the company fire pump. He further testified that the well was actually used in December, 1940, when the city water supply failed, and that he was of the opinion that it is necessary to maintain this well for standby service.

We are of the opinion that the well should be considered as property used in public service, and shall increase the Commission engineers' cost of reproduction appraisal, \$3,265, and reproduction less depreciation, \$2,612.

### *Preliminary Tune-up of Plant*

[21] The company engineers included \$3,353 (\$2,892, net, excluding overheads), in their estimate to provide for expense of preliminary tests, and for tune-up and adjustment of apparatus and appurtenances. Commission engineers made no comparable provision. We are not convinced of the correctness of the amount of the company engineers' estimate, but the need for such preliminary operations

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is apparent. We shall allow the entire item as claimed, although in doing so we appreciate that labor rates and overheads may be higher than adopted elsewhere in this report. However, we do not have the necessary information properly to modify the estimate and our error in adopting the full amount is minor.

### *Equipment Installation and Plant and Yard Piping*

[22] As previously stated, company engineers employed contractors, who had engaged in electrical, plumbing, heating, ventilating, air conditioning, industrial, and power plant work, to estimate the cost of installing equipment, and plant and yard piping. The Commission engineers based their estimate upon their usual procedure of assuming that the company would act as its own contractor.

The resulting difference is attributed to a number of factors, including labor performances, labor rates, and direct overheads. On the question of performance, the record is silent. The contractors used A. F. of L. rates throughout, whereas Commission engineers used union scale only for skilled craftsmen, except on underground gas pipes for which the same rates as adopted for distribution mains were used, Brockhoff being of the opinion that union labor would be required for the erection of holders, water gas sets, and purification apparatus.

The contractors added 10 per cent plus 10 per cent (21 per cent) to their direct costs, both labor and material, to provide for overhead and profit, and 1 per cent additional to the total to provide for performance bond. Commission engineers added direct

overhead percentages, but made no provision for profit. As a result, a detailed comparison cannot be made. It was shown, however, that estimated prices of materials assumed to be supplied by contractor were considerably higher than prices available to the company and used by Commission engineers.

Giving consideration to all the record on the above subject, we are of the opinion that the Commission engineers' theory of construction by company forces is sound, and that a contractor is not needed; and that the Commission engineers' performances and overheads should be accepted. We are further of the opinion, in conformity with our previous discussion, that the Commission engineers' theory of using part union and part nonunion wage scales is correct. However, in this instance, we believe that it would conform more nearly to actual construction practices had they used union labor wage scale for installing the yard piping. We will, therefore, adjust our engineers' estimate upward to take into account the difference between the wage scales used, and the rate paid union employees.

### *Account 322—Mains*

#### *General*

Approximately 50 per cent of the difference in appraisals is found in this account, the company engineers' estimate being 65 per cent higher than the Commission engineers. Certain factors contributing to this disparity, such as sales tax, direct overheads, customers' contributions, and permits and fees, have been heretofore discussed. The principal factor, however, is the difference in opinion as to the extent to which a trenching ma-

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chine might be used in excavating for the installation of the 600, or more, miles of mains in the distribution system. There are other differences (in addition to the general ones heretofore discussed) that are involved to a lesser extent, including the labor and trenching machine performances.

### *Use of Trenching Machine*

In estimating the cost of trenching for mains, both groups of engineers made studies of local conditions, and the Commission engineers estimated that 80 per cent of the length of the excavation for all mains in the company's system could be done economically with a trenching machine, as compared with 37.27 per cent estimated by company engineers.

The record shows that after the Commission engineers had prepared their inventory of mains, at which time detailed data regarding the size and location of mains was recorded, a Commission engineer took that information and made a field investigation of conditions along approximately every third street in the system, recording facts concerning the intersecting streets, streetcar tracks, driveways, and the number of houses. If the main was located between the curb and the property line, the number of poles and trees was also noted. In addition, the investigator took into consideration all visible obstructions that would prevent the use of a trenching machine. From the total length of mains, certain deductions were made for each of the various items heretofore noted, and if the footage remaining was sufficient to warrant, it was assumed that trenching would be

done with a machine. Where there was any doubt as to the successful performance of a trenching machine, the section was classified as hand trenching. As a result of this study, the Commission engineers determined that 87 per cent of the trench lengths could be trenched with a machine. The Commission engineers modified this percentage, adopting 80 per cent for machine trenching in order to provide for unforeseen and underground obstructions.

Engineers for the company prepared a similar study, proceeding along the following general plan, which was outlined by Mr. Black and supervised by Mr. Burley.

From an office investigation about 10 per cent of the mains were classified as hand trenching for the reason that the mains were located in business districts or other congested areas, or on narrow streets and roads, which company engineers contended would prohibit the efficient use of a trenching machine. Some mains were also classified in the hand excavation group because the company employees had information that certain areas were filled with stone or other materials difficult to excavate, or for the reason that they believed that the number of trees, shrubs, poles, etc., along particular lines of pipe would prohibit the efficient operation of a machine. In this group were also classified mains in parkways, when laid on sharp curves where the handling of a trenching machine would be difficult.

After having made an office study of the system, engineers were sent into the field to make an investigation of samples of the remaining mains system to determine whether machine

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trenching was feasible and, if feasible, to determine what obstructions would be found to require hand excavation.

As a result of their investigation, the company engineers found that 50.96 per cent of the system was not subject to the use of trenching machine, and that of the remaining 49.04 per cent, approximately 24 per cent, or 11.77 per cent of the total, would have to be excavated by hand on account of obstructions such as water services, trees, alleys, and driveways, crosswalks, street crossings, electric and telephone cable, and other underground obstructions.

The company engineers' conclusions were supported by Mr. Kendall W. Creecy, vice president of the Conduit Contracting Company, Inc., who, in his contracting experience, has done work of this nature for a number of utilities in and around the St. Louis and St. Louis county area. He made a field check covering about 15 or 16 per cent of the footage included in the company's study, or about 5 or 6 per cent of the total footage in the system, and his conclusions agree very closely with those of the company engineers.

To illustrate further the difference in the studies made by the company engineers and the Commission engineers, and also to support the company engineers' results, the company submitted Company Exhibit No. 27, which shows a summary of the inspections made by the company engineers, E. B. Black, and Kendall Creecy, together with the results of the inspection made by the Commission engineers, all being at identical locations. The over-all percentage classification of pipe in the particular

samples from each of the four sources indicated above is as follows:

	Machine Trenching	Hand Excavation
Company engineers .....	13.5%	86.5%
E. B. Black .....	13.2	86.8
Kendall Creecy .....	12.9	87.1
P.S.C. engineers .....	84.7	15.3

The very wide difference in results obtained by the respective groups of engineers was obviously caused by differences in the fundamental concepts of procedure to be followed in reproducing the property. However, the three separate estimates presented in behalf of the company coincide so closely as to indicate a complete lack of independent judgment.

The record on this subject of trenching machines is both voluminous and ponderous. Consequently, no attempt will be made to set forth a complete digest of the testimony and exhibits. The more important factors, and our conclusions, follow.

The savings to be gained from the use of machine trenching as compared with hand excavation is great, and is not confined to excavation alone, but affects the quantity, and resulting cost, of backfilling. It appears that the company engineers' estimated cost of trenching by means of the Barber-Greene machine (used for small sized pipe) is but one-third of the cost of trenching by hand, while the cost for using the Parsons machine (used for larger sizes of pipe) is less than one-half the cost for hand excavation. These relative costs are important, as the large savings which result encourage extensive use of machines on this class of construction work. We are of the opinion that the Commission engineers had a better grasp of the problem and gave more consideration



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to potential economies of construction by trenching machine than did the company engineers. The arbitrary assumption made by company engineers, that certain portions of the mains system required hand excavation merely because of location in business districts, congested areas, or on narrow or busy streets and roads, was improper, for it is apparent that excavation by trenching machine, affording a speedy method of completing the work, would be especially desirable at such locations. Judging from the procedure followed by the company engineers in excluding from machine excavation generous allowances for roots of trees, and assuming hand excavation for flower beds, shrubs, etc., over the line of trench; and also giving consideration to their timidity in assuming the operation of trenching machine on concrete sidewalks, and to the liberal sections of hand excavation that they allowed for water services, driveways, and street intersections, we are of the opinion that we should not rely solely on the company engineers' estimates.

On the other hand, it appears that the Commission engineers' estimate did contain errors, some few of which were admitted during cross-examination, and that the engineer making the examination did not correctly locate the pipe for his field investigation, nor did he give sufficient consideration to clearances. In further criticism, it appears that he did not make a sufficient allowance to provide for trees, poles, and other obstacles, when found along the line of trench.

Giving consideration to the above and to the entire record, we are of the opinion that 55 per cent of the total

length of mains in the system could be economically excavated by trenching machine, and we will increase the Commission engineers' cost estimates correspondingly.

### *Trenching Machine Performance*

The performances used by company engineers were approximately 80 per cent of those used by Commission engineers, the former having used 480 feet per 8-hour day for a Barber-Greene No. 64-B machine as compared with 600 by Commission engineers, and 374 feet per day for a Parson No. 21 machine, as compared with 450 by Commission engineers.

Mr. Brockhoff testified that Commission engineers' estimates of performance were based in part on records of 26 jobs of the St. Louis County Gas Company for which trenching machine performance had been maintained, and that said jobs indicated a performance of  $107\frac{1}{2}$  feet per hour. Commission engineers' performances were supported by testimony of Mr. T. E. Chenoweth, a Commission engineer, who made a time study of trenching machine performance in St. Louis by a machine operated by Conduit Contracting Company (Creedy's Company), and determined a rate of 114.4 feet per hour which takes into account lost time in raising boom to clear obstructions spaced at intervals averaging 28.4 feet.

The Commission Engineers' performances were also supported by Mr. William Tell, a trenching machine operator, who stated that 600 feet per day would be a minimum day's work for the Barber-Greene machine, considering average condi-

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tions in St. Louis county; and that the Parsons would accomplish about as much as the Barber-Greene. His estimate includes an allowance for waiting time for reasons other than servicing, which he stated is usually done in the morning before the crew arrives or during the lunch hour so that no time is lost.

Mr. Burley testified that company engineers' performances were obtained from an analysis of the company's experience in trenching 48,000 feet during 1939, which, he contended, is the only portion of the company's experience for which records sufficient to establish performance were kept. He further contended that the experience was obtained from excavation in areas that are not built up so that the analysis represents a performance which is more efficient than could be achieved in a complete reproduction of the property.

Mr. Creecy testified, in support of company's engineers' performance, that his company's experience has shown an average of 400 feet per 8-hour day using a small machine comparable to the Barber-Greene No. 64-B, and 350 feet per 8-hour day for a Parsons No. 21. Based on his firm's experience, he considered the adopted performances of company engineers to be reasonable, or perhaps a little optimistic. During the course of his testimony, he first estimated that two hours per day was required to service the trenching machine, including oiling, making adjustments, watering, and greasing. Later, he testified that the oiler arrived on the job an hour before the rest of the crew in the morning, and worked during the noon lunch period to oil and grease the ma-

chine. Finally, he testified that two hours servicing is required in addition to the one and one-half hours in the morning before work and during lunch hour.

Mr. Creecy, further testifying as to his firm's practice in the operation of trenching machines, stated that 50 feet at intersections would not be excavated by trenching machine; that of this 50 feet, 24 feet would not be trenched at all in order to provide a trafficway; and that test holes were dug in advance of trenching machine operations to locate services.

Mr. Chenoweth, from his study of trenching machine work performed in St. Louis by Mr. Creecy's company, testified that an average of 22.3 feet was not excavated by machine at intersections; that only 12 feet was not trenched at all; and that test holes were not dug to locate services.

Mr. Black testified that the company engineers' estimate of performance was reasonable.

We believe that Mr. Chenoweth's presentation of the actual performances and construction practices of Mr. Creecy's company completely discredits Creecy's testimony on these points and justifies us in disregarding it.

The performance of a trenching machine is partly a function of the character of territory traversed, but as the total volume of machine work increases the performance of the machine, per unit of time, also increases because large-scale operations can be carried out on a more economic unit basis. On the other hand, when a given task is to be accomplished partly by hand and partly by machine, the percentage of the total work to be

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done by machine definitely affects the performance of that machine; for as the percentage of machine work is increased, a larger portion of the more difficult work is thrown upon it, thus decreasing its output per unit of time. The 55 per cent which we have already adopted as our percentage of machine excavation is, therefore, directly related to the probable performance of these machines.

Giving due consideration to the above relationship, and to all the testimony relating to machine performance, we are of the opinion that the Commission engineers' performance estimates are fair and reasonable, as herein adjusted.

### *Purging*

The company engineers included in their appraisal an allowance of \$42,-034 to provide for the cost of purging the distribution system of air and filling it with gas. The company engineers contended that the operation is one that must be carefully and thoroughly performed in order to avoid retention of air pockets in the system, the creation of explosive mixtures, and the resulting possibility of damage to property or injury to persons. The Commission engineers made no such provision.

The need for purging is obvious, but the company engineers' estimate of cost is not convincing. After careful consideration of the estimate, we shall allow the sum of \$30,000 to provide for purging the mains system.

### *Other Mains Construction Performances*

#### *General*

As previously stated, the Commis-

sion engineers' performances were obtained from their past experience in making appraisals of various utilities' properties during which time large numbers of work orders of all types have been analyzed and certain basic performances have been developed. They also gave consideration to work orders reflecting this company's experience in constructing mains, but were unable to obtain a satisfactory separation which would show time spent on excavation, jointing and laying, or the other elements that are included in the cost of installing mains. As a result, it was impossible for them to use the analysis of work orders for obtaining labor performances. In the performances adopted, the Commission engineers carefully considered conditions in St. Louis county and determined whether previously developed performances were applicable to an appraisal of this company.

Company engineer performances for Accounts 321-327, inclusive, were based, in so far as determinable, upon the experience of the company and its practices as developed over a period of some thirty-five years' operation in St. Louis county. Their estimated performances for open-trench hand excavation, backfilling, disposal, laying and jointing, etc., are based upon an analysis of 78 work orders totaling about 275,000 feet of mains. Burley testified that the jobs included averaged about 3,500 feet in length with a minimum of 1,200 feet; that they were in various parts of the system; that they have been done within the past fifteen years; and that they represent, as nearly as possible to obtain, construction conditions which would

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exist for the property in event of a complete reproduction. He contended that the excavating and backfilling performances are based on local conditions and reflect the labor necessary to handle the variety of soils in St. Louis county, the good and bad weather encountered throughout the year, and the various underground hazards. He also stated that the backfilling performances reflect the same thoroughness of tamping as required by the present and past construction practice of the company.

In making the analysis, the hours charged for each class of employee engaged in excavation or backfilling for the installation of the mains included in the 78 work orders were totaled; "work performed" analyses were made to determine other duties of these men, the time required being estimated and deducted from the total labor charged; the time required for backfilling was then computed on the basis of company's experience and the total backfilling time thus calculated was also deducted from the total hours in the analysis. The remaining time was related to the total quantity of hand excavation and resulted in a rate of 4.426 cubic yards of excavation per 8-hour day per man.

Commission engineers criticized the analysis made by Mr. Burley, on the grounds that the work orders as selected did not represent reproduction conditions for the reason that, of the 31 work orders selected for 2-inch mains, 11 were in reality a combination of from two to eight smaller jobs combined into a single large work order. They further contended that the work orders which are composed of smaller jobs show a greater number

of man hours per foot than do the jobs which are a continuous run of installation at one location. The Commission engineers further claimed that the company records described by Burley do not afford sufficient information to make an accurate study of any additional work that was performed.

### *Hand Excavation*

The Commission engineers, taking into consideration all weather, used an average hand excavation performance of 5 cubic yards per 8-hour day which, in addition to actual digging, includes labor of installing bracing, sheeting, and shoring when necessary, of placing and removing bridging, barriers, etc., of grading bottom of trench, and of miscellaneous work chargeable to excavation.

The company engineers, from their above-described 78 work order analysis and the derived performance, adopted 4.5 cubic yards per man per 8-hour day for open trench excavation.

Company witness Black concurred in the 4.5 cubic yard performance adopted by company engineers. Witness Creecy testified that the figure of 4.5 yards as used by the company engineers is too high for the reason that it was determined from construction involving the use of experienced men, who, under reproduction conditions, would not be obtainable. He further stated that his company's performance in the St. Louis county area is 4.37 cubic yards per 8-hour day when using experienced labor.

Mr. Lucas, of the Mid-City Plumbing and Engineering Company testifying for the company, stated that in connection with his estimate to

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install plant piping at Shrewsbury, he used 6.0 cubic yards per day for trenches up to 4 feet deep, that he uses that rate for estimating all jobs, and that the time of year does not influence performance except when soil is frozen. Mr. Wiederholt, superintendent of construction for Frazier-Davis Construction Company, testifying in behalf of the company, stated that his superior type labor would excavate a maximum of 6 to 7 cubic yards per day for average soil conditions in St. Louis county.

### *Backfilling*

The Commission engineers assumed that a backfilling gang consisting of one compressor and operator, four tampers, and eight shovellers would backfill and tamp 120 cubic yards per 8-hour day. This was based on information used on previous appraisals. The performance thus adopted is equivalent to 0.8 man-hours per cubic yard.

The company engineers, after consultation with the construction department, used a rate of 1.23 man-hours per cubic yard, based on the assumption that a shoveller can handle 13 cubic yards per 8-hour day, and that one tamper is required for each shoveller.

Mr. Creecy testified that to backfill properly there should be at least one tamper to each shoveller whether using either air or mechanical tamping. He further testified that the company engineers estimate of 1.23 man-hours per cubic yard is very conservative.

Mr. Black stated that his firm specified, on certain types of work, that the number of tampers and shovellers shall be equal, that being the minimum requirement; that he had used a crew

performance of 1.2 man-hours per cubic yard for backfilling, as compared with the company figure of 1.23 man-hours per cubic yard; and that he considers this fair and reasonable in the St. Louis county area.

### *Welding Performance*

The Commission engineers' performances were based on performances used in previous appraisals, which in turn were based on statistics supplied by a firm producing and dealing in welding supplies.

The company engineers' performances were based upon an analysis of 35 of the 78 previously mentioned work orders. The results thus determined were adjusted, and performances increased to allow for operations which are necessary in piecemeal construction, but which would not occur in building a new system.

Mr. Schumacher, a Commission engineer, testified that he had viewed the installation of a 12-inch main constructed in 1939 by the Frazier-Davis Company for the St. Louis County Gas Company, and that he had seen welds completed in 48 minutes. The record shows that Commission engineers used a performance of 59.8 minutes per weld as compared with 202.53 used minutes by company engineers.

Mr. Burley testified that he did not know whether welding speeds had increased during the last fifteen years (the period covered by company engineers' examination of work records). He further testified that he had made an analysis of welding performances at the above-mentioned Frazier-Davis job which indicated a performance of 3.18 12-inch rolling



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line welds per welder per day. Mr. Wiederholt, of the Frazier-Davis Company, testified that he had tried to get four 12-inch welds per day, but that he never succeeded.

### *Conclusion*

In spite of Mr. Burley's contention that the analysis of the 78 work orders is an accurate portrayal of company experience, including a proper consideration of the actual conditions found on the property of the gas company, we are of the opinion that operating conditions are reflected to such a large degree as to make the results unacceptable for our purposes. Further, we note that the items included in the 78 work orders do not occur in the same relative proportions as in the inventory of the entire system, and that they reflect a condition commonly known as "unbalanced pricing," which results in serious error.

We are of the further opinion that 5 cubic yards per man per 8-hour day is a fair and reasonable performance for hand excavation. Our views on this subject are confirmed by at least two of the company witnesses. The backfilling, as used by the Commission engineers, also appears to be reasonable. The gang setup and the performances are all in keeping with previous findings of this Commission, and except for welding we again adopt them. The cost of welding steel mains as estimated by the Commission engineers will be adjusted upward by 50 per cent.

### *Services*

There is a difference of over \$1,300,000 in the service account, the company engineers' estimate being

more than 2.25 times the amount included by Commission engineers. A portion of the divergencies have been heretofore discussed under the heads of labor rates and direct labor overheads. The factors causing the remaining differences are as follows:

(a) Commission engineers assumed that 68 per cent of the lineal feet of services could be bored which may be compared with an assumption of 38 per cent by company engineers.

(b) For open trench excavation, Commission and company engineers estimated performances of 5 and 4.5 cubic yards per man per 8-hour day, respectively.

(c) In estimating the cost of backfilling, the Commission engineers assumed the use of hand tamping with a performance of 0.89 man-hours per cubic yard. The company engineers assumed pneumatic tamping at the same rate as for mains construction, 1.23 man-hours per cubic yard.

(d) The Commission engineers' cost of installing service pipe and fittings is only about 29 per cent of the company engineers' estimate.

(e) The company engineers made an allowance of \$29,102 to provide for purging services. Commission engineers made no comparable provision.

(f) Company engineers based their estimate on an assumption that the large and most economical service gang, costing about \$1.12 per productive man-hour, would not be able to gain access to 16 per cent of the houses on their first visit. In order to install this remaining 16 per cent of services, a smaller follow-up crew, costing about \$1.71 per productive man-hour, would be used. The Com-

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mission engineers made no such distinction.

(g) Commission engineers based their performance on the assumption that service construction would be made at the same time mains were installed so that only one excavation would be made at the point where the service joins the main located in the street. The company engineers assumed that service construction would not be synchronized with mains construction and that it would be necessary for the service gang to reexcavate the junction of the service pipe with the main.

With reference to the above factors, it appears that the Commission engineers assumed that 85 per cent of all services could be bored, but that the total length of each service could not be bored, the net result being that 68 per cent of the total service length was used. The company's determination that 38 per cent of the total service length would be bored was based on an analysis of 6,581 new services installed for new customers, which installations the company engineers assumed would be indicative of reproduction conditions. We are of the opinion that the Commission engineers' estimate is unduly optimistic and that the company engineers were overly conservative in their assumption. It appears that 54 per cent of the total service length would be installed by boring and that the remainder of the length would be constructed with open trench excavation. We shall adopt the Commission engineers' performances and adjust them in order to allow for the decrease in quantity to be bored and increase in quan-

tity assumed to be constructed by open trench excavation.

The Commission engineers' backfilling performance of 0.89 man-hours per cubic yard on the basis of hand tamping is to be compared with their estimate of 0.8 man-hours per cubic yards for mains construction which made use of pneumatic tamping. The company engineers were consistent in their adopted performances, using the same for mains and services. In our finding for the service account, we shall adopt the backfill performance as used by the Commission engineers' estimate for mains and will so increase their service account estimate.

The Commission engineers' performance for installing service pipe and fittings results in only 0.49 man-hours per service which is about fifteen minutes for two men. When the operations involved are considered, the time allowed by the Commission engineers is inadequate, and it will be necessary to modify their estimate to provide for the additional cost.

The subject of purging was fully discussed under the section dealing with mains construction and the same reasoning holds for services. We shall make an allowance of \$20,000 to provide for purging services.

The percentage of services estimated by the company engineers where it would be necessary for the gang to make a second visit in order to gain access to the house is unreasonably high, as is the difference in cost per productive man-hour between the main and follow-up gang. We are of the opinion that the additional cost should be given consideration, and shall make an allowance for same in our finding.

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With reference to the Commission engineers' assumed procedure of constructing services coincidently with mains construction, thereby avoiding duplication of excavation and backfill at the junction of the service pipe and main, we are of the opinion that, in general, the procedure could be followed, although a 100 per cent application of the plan appears to be overly optimistic.

The record shows that an item of \$13,400 was inadvertently omitted by Commission engineers for welding, but this has been corrected in Exhibit 15.

Summarizing, the Commission engineers' estimate for services will be modified to reflect the additional cost required for fitting, backfilling, permits and fees, change in labor rates, increased cost on account of failure to gain access on first visit, purging, welding, and provision for occasional inability to maintain contemporaneous construction of mains and services. After careful consideration of all the facts and evidence dealing with the cost of reproduction of services, we are of the opinion that \$1,673,000 is sufficient provision for the account, after adding back the consumers' contributions in conformity with our previous discussion.

## *Account 321—Measuring and Regulating Equipment*

About half of the difference in this relatively minor account is caused by sales tax and direct overheads which have been discussed heretofore. Although we are unable to determine the exact cause for the difference in direct labor cost, we shall adopt \$26,000 as the cost of reproduction.

## *Accounts 323, 325, and 326*

### *General*

The variance in direct labor cost as between the respective engineers is accounted for as follows:

Testing house regulators .....	\$3,206
Difference in labor gangs and rates of pay for installation of regulators and meters .....	10,471
Total .....	\$13,677

Mr. Burley testified that company practice is to test house regulators when purchased, and that he understood that no allowance was made for testing by the Commission engineers. The remaining difference is accounted for in part by the higher rates of pay assumed by the company engineers as compared to those used by the Commission engineers, and by the additional supervision (foreman) assumed by the company engineers which was not included in the Commission engineers' estimate. A further disparity is found in the performances adopted, and in the fact that company engineers assumed that only 80 per cent of the installations would be installed on the first attempt because access to premises could not be gained and, accordingly, the remaining 20 per cent would be installed by a small follow-up crew at a higher cost per man-hour. The Commission engineers made no such allowance.

### *Labor Performances*

Mr. Burley testified that the company engineers' labor performances were determined from estimates made by the company's meter department, and that these estimates were checked against performances actually achieved

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by the gas company's installers and were found to agree quite closely.

Mr. Brockhoff testified that he had analyzed records of the gas company and, by making a minor adjustment to compensate for piecemeal construction, determined that company experience checked very closely with performances as adopted in Commission engineers' appraisal.

### *Difference in Materials*

Of the \$27,092 difference in direct material costs, it appears that \$15,344 is accounted for by sales tax added by the company engineers but not by Commission engineers; that \$2,133 was caused by difference in material prices for which Commission engineers did not receive quotations, but used estimated prices which were too low; and that \$755 was caused by use of incorrect quotations received by the Commission engineers. The remaining difference in materials, \$8,855, is not explained.

### *Conclusion*

[23] In determining the cost of reproduction of these accounts, it appears that an adjustment should be made to provide for the cost of testing house regulators and for time required to make second visit in order to install meters. It appears that the company engineers' estimate of 20 per cent requiring a second call is too high, but we are of the opinion that a provision of that nature is essential and should be included in our finding. We shall also adjust the Commission engineers' appraisal to compensate for the difference in material prices for house regulators on which Commission engineers did not obtain

quotations, and for the difference in material price for base pressure index attached to 500-B metric meters. The direct labor overheads have been discussed before, as have been labor rates.

### *Account 327*

This is a small account and it appears that \$262 of the total difference of \$338, is in direct charges, and \$76 in direct overheads, and of the \$262 in direct charges, \$197 is caused by a difference in labor estimates. The evidence shows that labor performances used by the company were the same as used for mains and services. In view of the fact that we have generally adopted the Commission engineers' performances for mains and services, we shall adopt their estimate of cost of reproduction for this account.

### *Account 329*

The difference in this account is almost entirely caused by the percentages allowed for material overhead costs. We shall adopt the Commission engineers' estimate of cost of reproduction.

### *Summary of Reproduction Costs*

Under the foregoing headings, we have set forth our opinion as to the cost of reproduction of the various accounts for the property used in public service. We realize that a summarization of the opinions, as listed, would result in a total that belies the exactness of our judgment. We believe that our findings represent a reasonable degree of refinement for any account when considered alone, but that that refinement would disappear, and that the total would indicate a

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false accuracy if the various accounts were merely added together. Therefore, in order to obviate a cost of reproduction estimate indicating impossible precision, we shall combine our previous opinions and make a lump sum finding for all property.

From a study of the estimates of the cost of reproduction of the structural items above enumerated and a consideration of the adjustments hereinabove stated, we find the reproduction cost of the property of the St. Louis County Gas Company used in public service, excluding land and general overheads, to be \$8,118,000, as of December 31, 1938.

### *General Overheads*

[24-29] The engineers are in agreement as to the percentages to be allowed for the items of engineering and superintendence, 5 per cent; preliminary and organization expenses, 1 per cent; legal expense, 0.5 per cent; administrative and miscellaneous expense, 1 per cent.

For the general overhead item of taxes during construction, the Commission engineers used 0.25 per cent which was purely a judgment figure. Company engineers used 0.30 per cent which was derived by calculating an average tax rate based upon taxes paid during the year 1939 on a valuation assessed June 1, 1938, and by multiplying the rate so calculated by the estimated average years of the construction period which should be charged with the tax on the total property acquired during the construction period.

Both groups of engineers used the rate of 6 per cent for interest during construction, but there is a difference

in the lengths of construction periods, company engineers adopting a 2-year construction period as compared with an 18-month construction period as used by the Commission engineers.

The allowances as used by both engineers for preliminary organization, legal expenditures, administrative and miscellaneous expense, and engineering and superintendence will be adopted. In our opinion, 0.3 per cent is the proper allowance for taxes during construction for this property, although we arrive at this on our own judgment, since we disagree with the process used by the company. We are also of the opinion that an 18-month construction period is ample for the purpose of calculating interest during construction, and that a rate of 6 per cent should be used.

These allowances produce the sum of \$1,009,000 for general overheads and make the cost of reproduction new, including land, the sum of \$9,198,000 as of December 31, 1938; however, the cost of reproduction new, including price trends of \$276,000 and additions of \$1,219,000, make a total cost of reproduction new as of December 31, 1940, of \$10,693,000. Price trends, changes subsequent to hearing, and additions, are hereinafter discussed.

### *VII. Allocation of Property Not Used in Public Service*

With the exception of the well under the cooling tower heretofore mentioned, the respective engineers are in rather close agreement as to the proportion of property that should be classified as nonused. There are certain differences which require explanation.



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A portion of the Shrewsbury tract is used not only for gas operations but is also used by an affiliated electric company and by the Gas Company's merchandising department. The company engineers classified \$2,035 of the land for such purposes, the Commission engineers, \$2,739.

Of the portion of the Shrewsbury tract located on the south side of the Frisco tracks, Burley classified 9.2 acres on the extreme south end as not used in public service, having had that portion separately appraised, and set forth in his appraisal at market value of \$11,948. The Commission engineers classified 9.09 acres, located on the west half of the portion south of the tracks, as not used in public service, and calculated a value of \$13,635.

After careful consideration of the evidence relating to the Shrewsbury site, we are of the opinion that \$2,739 should be considered as used in electric or gas merchandising operations, and that the tract of land consisting of the 9.2 acres at the extreme south end, having a fair value (using the unit price determined herein) of \$9,200, should be considered as not used in public service.

The engineers are in agreement that only 41 per cent of the present fair market value of the main office site should be considered as used in public service. They are also in agreement as to the proportion of yard improvements at the Shrewsbury plant to be classified as used in public service, although the amounts involved were not comparable in the original reports, but we have corrected this in our findings previously herein.

With exception of the items which have been mentioned specifically, we

shall adopt the Commission's engineers' allocation for property not in use.

### *VIII. Accrued Depreciation General*

The amounts of accrued depreciation taken into consideration by the respective engineers in the preparation of their appraisals are set forth in the following tabulation which shows the composite per cent condition of the property in each account. [Table omitted.]

In a broad sense, the various engineers, in preparing their depreciation studies, claim to have considered all of the factors which are normally deemed contributory, but the extent and manner in which the relative factors were taken into account varied widely.

In general, they based their judgment opinion upon a consideration of physical condition as determined from inspection, upon age, probable life, obsolescence, and the company's maintenance practice. Visual inspections were made whenever possible, and on such items as buildings above the ground line, machinery, boilers, pumps, etc.

### *Accounts 312-320, Inclusive*

[30] To avoid duplication in our discussion, it appears desirable to combine Accounts 312 to 320, inclusive.

As shown in the following tabulation, the principal differences are found in relatively few items: [Table omitted.]

Not included in the above table is a correction made by Mr. Black in his depreciation estimate of plant equip-

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ment wherein he deducted \$19,938. Of this amount, we estimate that \$3,450 is applicable to items comprising the principal differences shown above, and that \$16,488 should be deducted from the remainder of the group of accounts. Making the adjustment reduces the company's composite condition on the remaining items from 88.7 per cent to 87.9 per cent.

With certain exceptions, Mr. Black's depreciation of plant equipment was premised on the theory that remaining value of property varies in accordance with a 4 per cent sinking-fund amortization curve. His estimated total useful lives for the various units were established after consideration of the company's operating record and expenditures for maintenance and repairs.

As shown above, the difference is about 2 per cent (85.7 per cent v. 87.9 per cent) on the composite of about 90 per cent of the above accounts. It appears that on the items where the difference is considerable, it is occasioned by recognition on the part of Mr. Brockhoff of obsolescence which was not taken into account by Mr. Black.

For example, Mr. Brockhoff, contending that some of the water gas sets are smaller and more expensive per unit capacity than the company would now buy, compared the investment per unit capacity of Water Gas Sets No. 1, 2, and 3, with that of a set with a larger capacity, and then estimated the depreciation of Sets 1, 2, and 3 on the basis of a larger and more modern set. In view of the little use made of the waste heat boilers, he concluded that they were obso-

lete at their present location and placed them in zero per cent condition. For the compressors, a procedure similar to the one used for the water gas sets was followed.

Mr. Black made no deduction for obsolescence. Mr. Allgeier, the company's gas works engineer, testified that, although sets 1 and 2 are used presently only as standby, changes have been made in the sets so that their capacity, in reality, is double the capacity used by Mr. Brockhoff in his obsolescence estimate. He concluded that the cost of reproduction per unit capacity is actually slightly less than that of the No. 4 set used by Mr. Brockhoff as a basis of comparison. He has inspected the sets and found them in very good condition, and stated that sets of this size (7 feet 6 inches) are in common use today.

Returning to the major premise of Mr. Black's depreciation study, we are unable to accept the sinking-fund theory as a correct method of measuring depreciation, although in the instant case, the difference in result is small. We are of the opinion that deductions for obsolescence should be made, but Brockhoff's deductions appear to have been somewhat excessive.

### *Mains and Services*

[31] The Commission engineers' depreciation study of mains and services was based largely on a determination of the company's experience of the life of pipe; a study of the age of various sizes of mains and services found in the inventory; an inspection of the mains and service pipe at 256 and 269 locations, respectively, throughout the system (most of which were joint inspections by Brockhoff,

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Burley, and Black) ; and a comparison of the maximum pit depths in the pipe with the original thickness of metal. From his age-life study, Brockhoff determined the weighted average conditions for wrought mains and services. As a result of his inspection, he raised his computed condition for wrought mains from 64.2 per cent to 65 per cent. The basis for his estimate of 85 per cent for cast-iron mains is not apparent. He also adopted 65 per cent for services, although his age-life computation showed 62.25 per cent. The items of paving and excavation permits were placed in the same condition as the composite condition of the account in which they were included, for the reason that the main or service for which the paving or permit was required would eventually be retired, and if no depreciation were deducted, the full cost would remain in the capital accounts.

Mr. Burley stated that his depreciation study for mains and services included an analysis of the company's past and present maintenance and operating policies, an examination of the company's records of replacement of mains and services, and a field inspection at several hundred locations (joint examinations by Black, Brockhoff, and Burley) well distributed over the property. It appears, however, that his determinations of depreciation were based upon maximum pit depths found in the pipe. From the measurements made at the time of inspection, average rates of pitting were calculated, the average pit depth for each size was determined, and in turn related to the average wall thickness of the respective sizes of pipe. The average per cent depreciation of vari-

ous sizes of mains was thus computed and adopted.

Mr. Burley's depreciation study for services was determined in like manner, except that, after having determined the weighted average per cent condition for all service pipe located between main and property line to be 79.5 per cent, an adjustment was made to compensate for that portion of the service located between the property line and house, which Burley contended was in a higher per cent condition than was the portion between the main and property line.

Sometime before or after, but apparently after, the joint field inspection of mains and services, Mr. Burley learned from a study of the company "active leak file," that the service pipe located between main and property line was replaced 2.17 times as often as the pipe located between property line and house. He then concluded that, if the accrued depreciation in the former portion of the service were 20.5 per cent, the accrued depreciation in pipe located between the property line and the house (equivalent to 64.5 per cent of the total service length) would be 20.5 per cent divided by 2.17 or 9.45 per cent. He weighted the above estimates of accrued depreciation on the basis of the respective lengths found in each section.

That was not his only adjustment, however. The use of the 2.17 factor resulted in a composite condition of 86.6 per cent, which he said was applicable to labor, pipe, and all items which were used only once. He contended that iron body curb cocks and similar items are reused, lasting

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through two service installations, and that cast-iron boxes are in 90 per cent condition. Weighting these latter percentages with the total, on the basis of the amounts involved, resulted in a composite condition of 86.86 per cent. He finally adopted 86 per cent, which was used in his appraisal.

Burley contended that the cast-iron mains in the distribution system are in excellent condition and that it is difficult to find a method which will "satisfactorily" measure the accrued depreciation. He adopted the sinking-fund method (4 per cent per annum), using an estimated 75-year life for 4-inch pipe and 100-year life for larger sizes, and rounding the depreciation for all cast iron pipe to 95 per cent condition. He contended that the condition of mains and services was unusually good, as was evidenced by small amount of lost gas.

Mr. Burley did not depreciate paving, nor permits and inspection fees, considering that the paving in his appraisal was not owned by the company, and that it is not the actual paving that would be cut if the property were built today.

Mr. Burley's depreciation study of mains and services was supported by Mr. Black, who used the same information, followed the same procedure, made the same adjustments, and prepared an estimate which practically coincides with Burley's findings.

Mr. Black criticized Brockhoff's depreciation study quite severely, contending that his age-life study and the use he made of it in determining per cent conditions of the mains and services were in error for the following reasons:

(a) Brockhoff used a straight-line

retirement curve which should be an S-curve.

(b) The retirements used in the data included those for causes other than deterioration, some of which are for unusual causes which will not re-occur, at least not to the same large extent.

(c) The line of Brockhoff's graph (in determining the life of services) was not drawn with reasonable mathematical accuracy.

(d) Brockhoff determined the life of the larger sizes of pipes, both mains and services, entirely from his life study of  $\frac{3}{4}$ -inch service pipe, which is the weakest pipe in the company's system.

(e) In determining the per cent condition of mains and services, no consideration was given for the longer life of materials other than pipe.

(f) In determining the per cent condition from his age-life study, Brockhoff based it on the average life of pipe, including that which has been removed, and not on the expected life of the pipe that is remaining in the system.

Expending on their contention that retirements as have been made in the past will probably not occur to the same large extent in the future, the company introduced testimony to the effect that only 25.1 per cent of service replacements were caused by deterioration of pipe, the bulk being caused by replacements of mains, change in grade of main, and services being replaced in advance of paving. They also introduced an exhibit showing, by years, the replacement of wrought mains caused by street improvements. Burley admitted that

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some of the mains which were replaced by reason of street improvements were in such condition that they would have been replaced very shortly had the street improvements not been made.

Mr. A. W. Elbring, a surveyor in St. Louis county, testified that, generally speaking, the grades of streets as they exist today have been established according to a general plan and, consequently, there is little likelihood for change in the years to come. In his opinion, also, street improvements have been practically completed. He opined that it will be unnecessary to replace any considerable footage of mains and services due to future grade changes or street improvements.

### *Conclusions*

With reference to the various determinations for the condition of services, we note that the Burley's and Black's "2.17" adjustments, do not show consistent policy, especially in view of their reliance upon pit-depths for the basic determination, and upon the company record of replacements for the 2.17 adjustment factor. If visual inspection is to be preferred, the inspections should have been made upon the customers' premises in order to determine the condition of that part of the service.

In any event, since the company record shows that the service pipe located between the mains and property lines has been renewed 2.17 times as frequently as the pipe located between the property line and the house, it then follows that in making the field inspection, the pipe which was observed was not of necessity worse than the pipe located between the property line

and house, but in most cases it was undoubtedly better. We are not convinced that any adjustment was necessary. Furthermore, Brockhoff's method of approach takes this factor into consideration without adjustment.

The company contention that certain parts of services may be reused, and do not depreciate as rapidly as the remaining parts, is a theoretical nicety resulting in one-half of one per cent increase in the condition of the service. On the basis of information now available, we doubt the ability of anyone to make a depreciation determination to that degree of refinement, and note in passing that Burley disregarded the effect of the change after having calculated the difference, adopting in his final report the next whole percentage below or 86 per cent condition, as compared with a calculated 86.86 per cent.

We are fully cognizant of the weaknesses in Brockhoff's depreciation study and agree that if his retirement data had been complete, he would have probably established an S-curve instead of the straight line which he adopted; that he had determined the life of larger sizes from his study on a  $\frac{3}{4}$ -inch service pipe; and that in determining the per cent condition from his age-life study, he used the average life of pipe including that which has been removed, and not the expected life of pipe that is remaining in the system. We are also aware that the retirements used in the data include those for causes other than deterioration, which is one of the reasons we prefer the retirement experience method rather than a simple inspection of the property.

It appears that a physical inspection



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of a small percentage of the total footage involved can hardly be expected to serve as a basis for a comprehensive determination of depreciation. Although outward appearance is important, we are of the opinion that a depreciation study which takes into consideration the company's actual experience affords a better foundation for a conclusion than does one based on visual inspection alone. This applies with special emphasis to property, such as mains and services, which is hidden from view, and where the inspection at best covers but a very limited portion of the inventory.

It appears fitting for us to observe that judging from the resulting estimates, Burley's and Black's studies might well have been based exclusively on visual inspection. Similarly, Brockhoff's recommendations are based almost entirely on age-life studies, although the results of his age-life calculations were tempered and adjusted slightly upward.

As stated, we are aware of the shortcomings and imperfections in Brockhoff's depreciation study, but in spite of them, we are of the opinion that information of the character assembled by Brockhoff affords a better means of determining accrued depreciation than does visual observation alone. We are not impressed by the sinking-fund calculations, and are at this time unwilling to accept them as the basis of accrued depreciation.

We, therefore, propose to reduce the amount of depreciation determined by Brockhoff's method to compensate for items improperly considered.

With reference to the accrued depreciation in paving and in permits

and fees, we are well acquainted with the basis for Mr. Burley's statements that paving is an inventory item which is not owned by the company; that the inventories include quantities which are no longer in existence; and that the quantities included in both appraisals are considerably less than would be required to reproduce the property. The reasons for including only the cost of original paving actually cut and replaced are well established, and it is unnecessary for us to here repeat or defend them.

Since the life of the investment in the cost of cutting and replacing pavement, and the cost of permits and inspection fees, cannot reasonably be considered to exceed the life of the main or service involved, it appears that the items tend to resemble general overhead items and to attach themselves to mains or services and depreciate accordingly. We shall adopt the Commission engineers' basis of depreciating paving actually cut and replaced, and the cost of permits and fees.

### *Account 325—Consumers' Meters*

[32, 33] Mr. Brockhoff's determination of condition percentages for this account was based primarily on a straight-line calculation using a 50-year life for meters, and an age of 11.5 years, thus calculating a per cent condition of 76.9. The life of meters as taken from the company's condemned meter record was from 0.5 to 27.4 years, although there were some meters purchased in 1904 which are still in service thus giving an age of the oldest meters of 34 years. In view of the fact that these meters are rapidly being junked, he concluded

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that it would indicate a life of about 35 years for meters. Apparently, he used the 50-year life to be conserva-

7-year period from 1931 to 1938, inclusive. His calculation is best set forth in the following tabulation:

Period	Meter Investment	Depreciation
To the end of 1931 .....	\$430,252	\$40,234 (Retirements)
1932-38, inclusive .....	134,112	10,887 (Estimated cost of repairs)
	<u>\$564,364</u>	<u>\$51,121</u>

tive. He was of the opinion that obsolescence was present in the meters since the reproduction prices received for certain small sized meters were the same as the quotations furnished for the larger sizes. On the basis of his information, Brockhoff adopted 75 per cent condition.

The conditions of meters as used in the company appraisal was prepared by Mr. Black, who claimed that the per cent condition of the meters depends entirely on whether the meters are operating within a legal limit of a 2 per cent maximum variation from the actual amount of gas passing through them. As all meters are removed on a schedule calling for a test every seven years, he assumed that all meters purchased up to the end of 1931 have either been retired at the end of 1938 or have been overhauled and repaired so that they will function within the 2 per cent legal limit. He, therefore, decided that the accrued depreciation existing in all meters purchased prior to the end of 1931 is measured by the investment in that portion of them which was retired by the end of 1938. To measure depreciation in the meters purchased subsequent to 1931, he calculated the number of meters that would be repaired in event all such meters were tested, and calculated the total cost of repairing such meters by the use of the average cost per meter repaired during the

From the above information, he assumed that the meter depreciation at the end of 1938 was \$51,121 divided by \$564,364, or 9.06 per cent, and that the meter condition was 100 minus 9.06 or 90.94 per cent.

On cross-examination, Mr. Black testified that he thought that a meter which has been tested and returned to service and then operated within the 2 per cent legal limit is much closer to 100 per cent condition than it would be to any other figure which might be arrived at by life expectancy, either by the straight-line or the sinking-fund basis.

He further testified that the use of a 50-year life and a 11½-year age and a sinking-fund basis would result in a 90.66 per cent condition as compared with the 90.94, which he determined.

Mr. Black used the cost of repairs theory only on meters purchased subsequent to 1932. He obviously lost sight of the fact that meters purchased prior to 1932, even though all repaired during the period, 1932 to 1938, inclusive, are, at December 31, 1938, half-way along the road to the repair shop. In other words, assuming that the meters are repaired once every seven years, then a meter repaired in 1932 would require check, inspection, and repairs in 1939, one repaired in 1933 would require second repair in 1940, etc. On that basis, 50

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per cent of the repairs made to such meters would have been worn out at December 31, 1938.

The cost of meter repairs for this company has shown a rather steady increase from \$3.71 each in 1932 to \$5.13 each in 1938. Quite likely the cost of repairs at the present rate is more truly indicative of the present depreciation in the meters than is the average for the period. Returning to the proposition outlined above, the extent to which the repairs are worn out is one-half of \$5.13, or \$2.56 per meter, which, on the basis of 50,718 meters in the inventory, would amount to \$129,838, and this, when compared to the company engineers' cost of reproduction of \$498,648, indicates depreciation in the amount of 26 per cent. Such a calculation gives no consideration to obsolescence, and assumes that repairs will restore the meter to 100 per cent condition. We are unable to accept the latter assumption.

We cannot agree that the investment in meters retired is a measure of the depreciation in meters remaining on the property.

It does appear, however, that the fluctuations in unit cost of repairing meters is an important factor in determining their depreciation, because if this cost becomes excessive, the meter is obviously in a low per cent condition and naturally less valuable. On the other hand, if after having spent a large sum on repairs it can be shown that the subsequent unit cost for maintenance is reduced, it would then be reasonable to conclude that the condition per cent had been improved. But a contrary condition exists on this

property—the repair costs have been increasing.

Although we do not concur in Brockhoff's method of determining the depreciation, it appears that his estimate of condition closely coincides with our judgment.

### *Depreciable Property (Remaining Accounts)*

On the remaining accounts, differences appeared to be largely ones of judgment, and any issues involved because of differences in methods have heretofore been discussed. Our finding of condition for these accounts will be taken into consideration in our determination for the entire property.

### *Conclusion—All Accounts*

After careful consideration of all the evidence relative to accrued depreciation and giving weight to our findings for the various accounts, heretofore stated, we are of the opinion that the composite accrued depreciation of all property used in public service, exclusive of land, is 18 per cent.

### *IX. Working Capital*

[34, 35] In determining the present fair value of utility properties for rate-making purposes, it has been the policy of the Commission to consider working capital as one of the elements where the evidence substantiates the reasonableness and necessity therefor. The components of working capital consist of an allowance for prepaid materials and supplies for conducting current operations and repairs, and of cash for use in operations in advance of collections.

Materials and supplies and cash

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working capital are further particularized under their respective sub-headings as follows:

### *Material and Supplies*

The Commission engineers included in their appraisal an item of \$122,374, as a proper allowance for the item of materials and supplies.

at the hearing and the company devoted approximately 25 pages to the discussion in its brief.

Both the company and the Commission accountants submitted recommendations as at December 31, 1938, and December 31, 1940. These recommendations are tabulated as follows:

December 31, 1938		P. S. C. Accountants	Company Accountants
Cash requirements for ordinary operating expenses prior to collection from customers .....		\$135,547.13	\$138,366.72
Special deposits, petty cash, and miscellaneous prepayments .....		26,574.90	26,306.34
Cash buffer fund .....		25,000.00	40,000.00
Prepaid rate case expense .....			46,748.80
Total .....		\$187,122.03	\$251,421.86
December 31, 1940		Commission Accountants	Company Accountants
Cash requirements for ordinary operating expenses prior to collection from customers .....			\$157,044.75
Cash for current operating expenses .....		\$22,760.27	
Special deposits, petty cash and miscellaneous prepayments .....			19,279.05
Prepayments, special deposits, minimum bank deposits and working funds .....		36,685.27	
Prepaid rate case expenses .....			48,689.74
Estimate for unforeseen items and contingencies .....		7,000.00	
Cash buffer fund .....			40,000.00
Total .....		\$66,445.54	\$265,013.54

The company engineers included \$126,871 for the same item. The company estimate is based upon average monthly balances for the year ending December 31, 1938, of materials and supplies used in gas operations, and excluding those used for the merchandising department.

We are of the opinion that \$125,000 will provide an adequate allowance for this item.

### *Cash Working Capital*

The evidence supporting the various recommendations for cash working capital is quite voluminous. There was considerable testimony introduced

The methods used by the company and the Commission accountants in arriving at their 1938 recommendations were similar. The difference of \$64,299.83 is found principally in the amounts included in the buffer funds and the inclusion of an item for prepaid rate case expense by the company.

As stated in the record the Commission accountants desired to substitute their 1940 recommendation for the one included in Exhibit CA-1 for the year 1938. The company's recommendation included in company Exhibit No. 24 is for the same period so we shall consider these two recom-

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mendations only in making our allowance.

The company claims that this last method used by the Commission accountants is a radical departure from accepted methods while the company's methods follow accepted principles used for many years by parties presenting evidence to the Commission on the subject. It is emphasized that the Commission has approved their method and it is inferred that the two Commission accountants introducing their respective recommendations were in disagreement between themselves. As a matter of fact, both methods were prepared under the supervision of the same accountant. The 1940 study was prepared principally because it was believed that the old method was too liberal and did not accurately measure cash working capital requirements. A survey of regulatory procedure shows that there is nothing unusual in changing the methods used in finding an allowance for cash working capital. This Commission has made allowances based upon balance sheet items, arbitrary allowances of one month or more of operating expense, and upon methods similar to the one followed by the company in this case. The company itself, in the 1940 recommendation, includes an item which by its own admission is an allowance which has not been made in previous cases.

The company states the amount of cash working capital is accurately measured by the amount of operating expenses to be prepaid by the company and then claims \$157,044.75 is the amount of cash required for ordinary operating expenses prior to collection from customers. No evidence

was presented that this amount represented the actual amount of prepaid operating expenses in advance of collection from customers or that the actual use of funds in this amount was necessary. The study discloses that this figure is based upon 50.793 days of operating expenses, after certain deductions but no claim is made that all of these operating expenses required actual cash disbursements prior to collection. It may be presumed the company's recommendation is based upon the theory that all operating expenses are paid in cash as soon as incurred and that no collections are made until 50.793 days after the service is rendered. The evidence discloses this is not true.

The Commission accountant's recommendation is based upon studies which developed the actual daily expenditure of cash for operating expenses, the daily collections of cash earned by the operations and the daily balance expended for operating expenses which had not been recovered by the collection of the related revenue. The study definitely shows the amount of cash in service each day and the amount on which the company is entitled to earn a return for that particular day. Cash expenditures and cash collections, in this study, were both used to arrive at the recommended allowance, something the company's study failed to do.

An allowance for special deposits, petty cash, and miscellaneous prepayments was recommended by both the company and the Commission accountants. In addition, the Commission accountants recommended an allowance for minimum bank deposits required to be maintained in nine out



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of the twelve banks with which the company did business.

The company's recommendation includes a claim for prepaid rate case expense amounting to \$48,689.74 which is based upon the 10-year average of the unamortized cost of the appraisal and audit in this case. Should we allow this claim the company will not only be reimbursed for all expenditures made in connection with this case but will also be receiving a return upon the money so expended.

Regarding the company's claim for a buffer fund of \$40,000 the investigation failed to reveal the necessity for an allowance of this nature and there was no evidence presented at the hearing showing that the company in its experience had required such a fund. Figures were submitted pertaining to cash balances in banks in justification of this claim. This, in our opinion, does not substantiate an allowance of this size and we believe the provision included by the Commission accountants for minimum bank deposits covers the requirements and is more in line with the actual facts. While the Commission accountants' recommendation does not include a buffer fund an allowance of \$7,000 was included for unforeseen items and contingencies.

The company's brief contains discussion of the objections to the Commission accountants' method of computation, which may be summarized as follows:

I. Failure to consider maximum cash expenditures and amounts held idle in banks as a measure of the cash amount on which a return should be allowed.

II. Omission of expenditures pertaining to operating expenses for subsequent periods from the amount of cash expended daily.

III. Failure to include an allowance for material and supplies issued from stock for use in operations.

IV. Omission of an allowance for a buffer fund.

We shall discuss each of the above objections as follows:

I. The company asserts that the Commission accountants' theory does not contemplate allowing the company to keep on hand sufficient cash for its actual expenditures. It was shown from the testimony, referring to Company Exhibit A, that on a particular day the company had expended \$32,655.16 of which only \$44.84 had been collected yet the allowance, as shown by the study, was \$15,462.14.

If cash is required such requirement will be proved by the fact that it is used. If it is never used it is never needed. The Commission accountants studied the records of a period for which operations were completed and for which expenditures had been made and revenues collected. The requirements of cash, and the date of such requirements, were a matter of record and from this record the data concerning expenditures was taken. No possible requirement of cash affecting this period had to be estimated nor did the source of such cash have to be considered. The company makes no claim of error in the expenditures for the period studied. It is true that on particular days more cash was used than was allowed. It is also true (Company Exhibit A) that out of the 69-day period studied, the balance of expenditures uncollected on sixty-one

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days was less than the recommended allowance. The amount recommended will result in compensating the company for use of its funds in the maximum as well as in the minimum amounts for the period of time in use.

II. The second major point of controversy deals with the exclusion of expenditures for subsequent periods from the amount of cash expended daily. The inclusion of expenditures for operating expenses for subsequent periods and the exclusion of cash collections pertaining to prior periods has merit for a new company without business attached but that position is theoretical and not applicable here because the company is now a going concern. We believe the results obtained from a study of the expenditures and collections pertaining to the period selected, adjusted for seasonal and other variations, as was done in this study is reasonable.

III. The company contends the Commission accountants were in error in not including in their figures the cost of material and supplies actually consumed and used in daily operations during the period studied. We believe the recommendation for material and supplies previously included is sufficient to provide a return on all expenditures for the prepayment of material and supplies.

IV. The failure of the Commission accountants to include an allowance for a cash buffer fund is cited by the company. As previously stated, the only reason advanced for this allowance was the large cash balances maintained in several banks. The Commission accountants made provision for minimum deposits in nine out of twelve banks where deposits are main-

tained. The three banks excluded were those banks in which the surplus funds are deposited. These funds are available for the payment of interest on bonds, dividends on stocks, and for general cash purposes. The average balances are so large the minimum deposit requirements are always exceeded. We fail to see in these deposits a justification for a buffer fund allowance and agree with the Commission accountants in ignoring these banks in calculating the requirements for minimum bank deposits.

The company states " . . . if cash may not be considered working capital until actually expended, then neither may materials and supplies. There is no difference . . . ." There is a vast difference between cash and material and supplies. Cash may be used for investment and may earn a return from other than utility operations. It may be loaned at interest, or may be invested in securities, or earn interest while on deposit. On the other hand materials and supplies while in stock do not create revenue and are subject to depreciation.

In considering an allowance for cash working capital, it is generally recognized that cash should be available to pay operating expenses as the need arises, and that material and supplies should also be available to meet operating requirements.

There are a number of expenses which do not require working capital, and provision is made for the ultimate payment of such expenses by the creation of reserves. There is no working capital required for taxes, interest on long-term obligations, and other needs which are provided for by the collec-

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tion of revenues from the customers well in advance of the dates of payment. Customers deposits for guaranty of bills also supply a substantial amount of cash. Thus, in addition to the cash working capital allowed in a rate case, the company has the use of large sums of money furnished by the customer before such sums are actually needed for disbursement.

We have carefully considered all of the evidence presented and it is our opinion that the amount of cash working capital to be allowed can be more accurately determined by the use of methods which take into account actual experience in the disbursement and collections of cash than is possible by the use of methods heretofore presented. We believe an allowance of \$66,445.54 for cash working capital will adequately compensate the company for the use of cash devoted to gas operations and we shall adopt this sum as the proper allowance.

### *X. Going Value*

[36] The company contended its system has an added value over and above the component parts comprising the physical property which it termed going value. According to a company's witness going value is inherent in a company which has an assembled and established plant and is doing business and earning money; where its past operations clearly reflect the excellence of service and the low cost per unit of service in comparison with results attained by others; where conditions affecting performance give dependable assurance of future growth and capacity to earn net returns at relatively low rates; and

where its financial history and its existing financial conditions together with an efficient personnel, give assurance of its ability to successfully continue filling the service needs of its territory. It was specifically stated that with respect to each of these factors the company is in an excellent position, and considering the allowances made to other utilities in this state and elsewhere generally, requested \$1,000,000 for going value to be attached to its entire used and useful property.

The company's witness stated that his recommendation of \$1,000,000 was a judgment figure derived from a consideration of all material facts but admitted that no uniform rate can be set as a reasonable allowance for all companies. His testimony included a tabulation of all cases in which the Commission has made a separate allowance for going value. In these cases, the Commission's allowances have approximated 7.5 per cent.

The Commission's staff made no estimate of the amount to be allowed for going value, nor did they make a recommendation relative thereto.

The Commission is of the opinion this intangible element should be considered in finding the present fair value of the property devoted to public service. In recent cases the Commission has considered this element in arriving at the present fair value of property but made no separate allowance therefor (*Public Service Commission v. Kansas City Power & Light Co.* [1939] 24 Mo PSCR 597, 664, 30 PUR(NS) 193). We see no reason for deviating from this practice.

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## XI. Changes Subsequent to Appraisal

Subsequent to the appraisal and before the hearing, prices moved upward somewhat. The Commission engineers estimated an increase of 2.7 per cent in the cost of reproduction as compared with a 3.5 per cent increase estimated by company engineers. It must be remembered that Commission engineers' estimated increase reflects new regulations promulgated by the state auditor for the collection of sales tax on all purchases, regardless of where purchased. This tax payment was considered by company engineers in their 1938 appraisal, so the 3.5 per cent increase was in addition to tax changes. In addition, the company claimed increases of 5.4 per cent for materials and supplies, and approximately 8 per cent for cash working capital. The company also contended for increased land values not reflected in company engineers' Exhibit 31, which sets forth their estimates of price changes.

According to Commission Accountants' Exhibits 1 and 2, net adjusted additions and betterments of property used in public service for the interim period, 1939 and 1940, were \$1,219,378.49. A study of Commission accountants' working papers shows gross additions amounting to \$1,344,710.12 and retirements in the amount of \$106,047.01. The latter amounts are before allocation to other departments and to Not in Use.

During the same interval of time the following nonrefundable customers' contributions were made:

1939 .....	\$40,425.56
1940 .....	50,698.19
Total .....	\$91,123.75

Similar statistics for additions, retirements, and customers' contributions for the years, 1941 and 1942, will be set out later in this report.

Although the record does not disclose the amount, we are well aware that at December 31, 1940, depreciation over and above that estimated for December 31, 1938, had accrued and was present in the 1938 property remaining at December 31, 1940. Although retirements generally tend to remove the property involving relatively high amounts of accrued depreciation, the retirements during 1939 and 1940 were but 1.25 per cent of the depreciable property and are thus hardly enough to offset the probable increase in accrued depreciation. The very marked increase in the plant account, about 15 per cent, has brought into the picture considerable property on which little or no depreciation has accrued. We are of the opinion and find that the composite condition of the property used in public service at December 31, 1940, was the same as found for December 31, 1938.

In our finding of fair value at December 31, 1940, we shall take into consideration the additions and retirements occurring since the date of the appraisal, a proper provision for an increase in costs subsequent to the date of appraisal or of construction, the accrued depreciation at December 31, 1940, a proper allowance for working capital, the change in amount of customers' contributions, and all other factors normally considered in determining fair value.

## XII. Present Fair Value

In the foregoing chapters of this report we have recited the evidence

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concerning the fair market value of the company's lands, the original cost of the property other than land, the cost of reproduction and the general overheads, the accrued depreciation in the used and useful property, the allocation of property used and not used in public service, the additions and betterments and price trends from the inventory date to December 31, 1940 and working capital requirements. Having given consideration to all of these factors and taking into consideration that the property is a going concern with business attached, necessary records and trained personnel, we are of the opinion that the fair value of the property, tangible and intangible, used and useful in public service at December 31, 1940 is \$9,000,000.

### *XIII. Annual Depreciation Requirement*

Company Exhibit No. 20 sets forth the annual depreciation expense estimate prepared by Mr. Harold W. Ross, the company's valuation auditor. This estimate is based on the retirement experience of the company during the period 1918-1938, during which time a composite depreciation accrual of 2.44 per cent has made sufficient provision to absorb the property retirements (1.17 per cent per annum of depreciable plant investment), and to create a reserve balance at December 31, 1938, equivalent to 14.42 per cent of the depreciable plant investment. Ross stated that this reserve balance compared favorably with the existing accrued depreciation at December 31, 1938, as determined by company engineers, and as shown in company engineers' Exhibit No. 1. In preparing his calculations,

the charges for property retirements were adjusted to include removal costs aggregating some \$44,463, which, prior to January 1, 1932, the effective date of revised Uniform System of Accounts, were charged to maintenance expenses. He was of the opinion that past retirement experience over a sufficiently representative period, coupled with a determination of depreciation which has accrued to date but has not resulted in retirements and with proper consideration of any probable changes in future conditions as compared with past, constitutes a sound basis for estimating depreciation provision. He recommended a rate of 2.5 per cent of the depreciable plant investment.

The record shows that the Commission engineers' recommendation was based upon a somewhat similar theory. Mr. S. B. Nelson, Commission's chief engineer, testified that the Commission engineers' study indicated that if an annual allowance of 3.3 per cent of the depreciable property had been set aside for the period December 31, 1918 to December 31, 1938, the amount of money accrued would have provided for the materialized depreciation, and would also have provided a reserve sufficient to offset the accrued depreciation as determined by the Commission engineers. He recommended that the company be allowed to set aside annually, the sum of \$270,000, plus 3.25 per cent of the net additions of depreciable property installed subsequent to December 31, 1938. He further testified that annual depreciation allowance and the per cent condition of the property are intimately related, and that any change made in the one should be re-



flected in the recommendation made for the other. In other words, had the Commission engineers found a higher per cent condition of the property, he would have recommended a lower annual depreciation allowance.

Annual reports to this Commission indicate that the company has been accruing to its depreciation reserve sums which are 14 per cent of the operating revenues, minus actual maintenance charges. We disapprove of this method, and note that, beginning with the year 1942, the company has abandoned it.

The underlying bases of both recommendations now before us are practically in accord, and also conform to procedure heretofore followed by this Commission in establishing annual depreciation allowances. We are of the opinion that Ross was correct in making an adjustment in order to reflect removal costs for which the depreciation reserve must now provide, but in other respects we will adopt the Commission engineers' calculation, after adjustment to compensate for the change in accrued depreciation hereinabove adopted. Recalculation of company experience, taking into consideration \$44,463 in removal costs, and a composite accrued depreciation of 18 per cent results in experience of 2.66 per cent over the period 1919-1938, inclusive. After careful consideration, we are of the opinion that \$257,000 per annum is sufficient to provide for annual depreciation

at December 31, 1940, and that to this amount should be added 2.7 per cent of the net additions to provide in subsequent years for change in the property.

#### *XIV. Operating Revenues and Expenses*

The Commission accountants and the company both submitted audited statements of operating revenues and expenses for the years ended December 31, 1938 and December 31, 1940. For the year ended December 31, 1938, the relative exhibits are Commission Accountants' Exhibit CA-1 and Company Exhibit 18. For the year ended December 31, 1940, the relative exhibits are Commission Accountants' Exhibit CA-2 and Company Exhibit 24. As the finding by the Commission in this case will be fixed as at December 31, 1940, the operating revenues and expenses to be considered are those for the year ended December 31, 1940, and we shall confine our discussion to the two exhibits and the evidence concerning that period.

The following table summarizes the findings of the Commission accountants and the company for the year 1940 and shows the differences in the two audits. We shall consider here only the revenue and expense accounts applicable to a finding of the net operating revenues available for depreciation and return as the proper allowance for depreciation has been discussed in another chapter of this report.

Operating Revenues and Expenses— Year Ended December 31, 1940	P. S. C. Accountants' Ex. CA-2	Company Exhibit No. 24	Difference
Operating revenues .....	\$2,450,143.68	\$2,450,143.68	.....
Operating expenses (excluding depreciation) .....	1,642,486.23	1,665,199.85	\$22,713.62
Net operating revenues available for depreciation and return .....	\$807,657.45	\$784,943.83	\$22,713.62

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It will be observed that the differences between the audits of the Commission accountants and the company result in a difference in the amounts included in operating expenses of \$22,713.62. We shall limit our discussion to the various items constituting the difference in the two audits.

These differences are confined to five items which may be tabulated as follows:

I. Federal capital stock tax ....	\$7,632.35
II. Advertising costs .....	2,191.14
III. New York office payroll social security taxes .....	1,820.34
IV. Rentals for facilities of Union Electric Company of Missouri jointly used by the company .....	10,906.37
V. Allocation of taxes .....	163.42
<b>Total .....</b>	<b>\$22,713.62</b>

The respective differences will be discussed as follows:

[37] I. The first item, amounting to \$7,632.35, represents the amount of the Federal Capital Stock Tax for 1940, which was disallowed as an operating expense by the Commission accountants.

The Commission accountant stated that the corporation's control of the taxes indicated that it was the intent of the act to levy the taxes upon the stockholders and cited in support of his action a decision of the New York Commission, Case No. 7606, Re Yonkers Electric Light & P. Co. which says, among other things: "The capital stock tax is a Federal tax computed by the company upon the stated value of the capital stock plus surplus and the retirement reserve. Thus it appears that the tax is really a tax upon the stockholder and not upon the property. If all the earnings had been distributed in dividends, the

tax would be less; if no dividends are declared but a large surplus accumulated, the tax will be increased. These facts indicate that from its nature the tax is not one which the consumer ought to be called upon to bear." (PUR Digest [Supp A] p. 723.)

The company admits that while it could have avoided payment of the tax in question by exercising its option to declare the value of its stock at zero, the company would then have been required to pay additional Federal income taxes, which would have resulted in a total tax bill in excess of the amount paid. The company states that the act itself implies that the tax is imposed upon the corporation itself and not upon the stockholders.

While we are aware that the exclusion of this tax from operating expenses is a highly controversial subject we believe the action taken by the Commission accountant was correct and in accord with sound regulation. The company in its exception to the disallowance of this tax injects another tax, the excess profits tax, into the discussion. Although these two taxes are closely related, they are separate levies and the amount of capital stock tax is definitely controlled by the stockholders. The capital stock tax is not upon the property being considered by the Commission for rate-making purposes in this case, neither is it a tax upon the revenue that produces a return upon such property.

We shall not reinstate the Federal capital stock tax eliminated by the Commission accountants.

[38] II. The second item of difference amounting to \$2,191.14, is the

result of the difference in allocation of the cost of certain advertisements between new business expense and merchandising expense. The Commission account allocated these costs on a space basis, while the company allocated 50 per cent of the costs to new business expense and 50 per cent to merchandising expense. The company admitted that their allocation was not based upon any mathematical formula but upon a basis which, to the company, seemed fair to all concerned.

We believe the method of allocation used by the Commission accountants is just and shall not reinstate any portion of their elimination.

III. The company conceded that the Commission accountants' elimination of \$1,820.34 of New York office payroll and social security taxes is correct for the reason that the salaries in question are no longer paid by the company.

[39] IV. The next item of difference, amounting to \$10,906.37, represents computed, or theoretical, rentals for certain facilities belonging to Union Electric Company of Missouri which are used by the company. The Commission accountants state that they did not allow this item in operating expenses for the reason that the company had failed to record in its books and records a sum representing these rental charges. They also agree that there might be a basis for this charge because in Case No. 7593, 17 PUR(NS) 337, the property of Union Electric Company of Missouri devoted to the use of the company was deducted from the rate base and the Commission indicated its approval of the payment by the company to

Union Electric Company of Missouri of a rental for such property. The company admits that these rentals have never been actually paid or placed in their books.

We have carefully considered the evidence offered and the arguments presented by the company. We are of the opinion that the allowance of this claim would be improper. It may be assumed that the officers of the company exercised proper discretion in their managerial capacity as to what constituted an operating expense. Since the affiliated companies, under a common management, have never required either company to record the rentals of the property or include them in income tax returns, or profits, the allowance of the claim solely for the benefit of the company, in this case, does not appear reasonable. The amount will not be allowed as an operating expense.

V. This final difference of \$163.42 results from the allocation of taxes on lands at the Shrewsbury plant which are partially used and partially not used in public service. The Commission accountants allocated taxes on Shrewsbury lands in accordance with percentages determined by Commission engineers while the company allocated such taxes on the basis of percentages supplied by their engineers. In another chapter of this report we have reviewed the evidence concerning the proper allocation of land at the Shrewsbury plant. On the basis of our findings in that chapter the taxes on lands allowed by the Commission accountants in operating expenses should be increased \$157.90. Accordingly, we shall make this adjustment.

## MISSOURI PUBLIC SERVICE COMMISSION

### *Miscellaneous Adjustments*

In the foregoing discussion we have considered all of the differences relating to operating revenues and expenses disclosed by a comparison of Commission accountants' Exhibit CA-2 and Company Exhibit No. 24. There are three other items to be considered which affect operations that are covered by other exhibits and testimony.

### *Refunds of Insurance Premiums*

A company witness testified that since the 1940 audit made by both the Commission accountants and the company, refunds of insurance premiums amounting to \$195.80, applicable to 1940 operations, had been received. These refunds reduce insurance expense for the year 1940, and are therefore a reduction in operating expenses. We shall adjust 1940 operating expenses by this amount.

### *New Retirement Plan—Effective January 1, 1941*

[40] A retirement plan for company employees has been adopted, effective January 1, 1941, which provides retirement income for all employees who join the plan and make monthly contributions thereunder. According to estimates made by actuaries of the insurance company which is underwriting the plan the net increase in operating expenses resulting therefrom will amount to \$15,-282.62 annually.

It is true that this increased operating item does not affect the period of our audit as the increased expense did not begin until after the close of the audit period. On the other hand, we believe this added expense should be given consideration in our

findings. No testimony was introduced questioning any of the company's claims therewith. We believe operating expenses should be adjusted to cover this definite future requirement and provision therefor will be made.

### *Adjustment of Operating Revenues and Expenses for the Year Normal Weather Conditions*

The company introduced an exhibit (Company Exhibit 29) purporting to show that the year 1940 was not a normal operating year. It is stated that the company's rates should not be based on an abnormally mild year nor an abnormally cold year, but should be based, if possible, on normal temperature conditions. The company adjustments in this exhibit result in a reduction in operating revenues of \$85,215.34 and in operating expenses of \$52,594.14, or a net reduction in net operating revenues of \$32,621.20.

The Commission agrees that weather conditions would affect operating revenues and expenses of a company engaged in the distribution and sale of gas for house-heating purposes. We believe there are also various other factors affecting revenues and expenses, including economic conditions and growth of the territory that have not been considered. To attempt to pick out this one factor and make adjustments in operating revenues and expense, by mathematical formula, appears to us distinctly hypothetical. Moreover, it is possible that extreme cold weather may prevail in the next few years.

We shall not attempt to adjust the 1940 operating revenues and expenses

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on the basis of the evidence presented by the company.

## Conclusion

Summarizing our findings for operating revenues, operating expenses, and net operating revenues available for depreciation and return, applying in the manner indicated all the items hereinbefore discussed, we have the following:

Operating revenues .....	\$2,450,143.68
Operating expenses (excluding depreciation) .....	1,657,730.95
Net operating revenues available for depreciation and return ..	\$792,412.73
Less annual depreciation .....	257,000.00
Available for return .....	\$535,412.73

## XV. Rate of Return

[41] The principles governing the determination of a fair rate of return are well established. Under the law a public utility corporation is entitled to charge rates for service that will produce, over and above reasonable operating expenses including depreciation, a fair rate of return upon the present fair value of the property devoted to public services.

The record contains evidence concerning the various factors which must be weighed and considered in arriving at a determination of a fair rate of return in this case. Consideration should be given, among other things, to security yields, safety of investment, stability of business, and to all other relevant factors. The resulting rate of return should be one which, when considered in the light of past, present and probable future conditions, will not cause an injustice to the owners of the property, or to the consumers that pay for service.

We have examined the evidence presented by the company supporting their claim for a rate of return of not less than 7 per cent and agree that certain of the arguments in support thereof have merit. Considering all angles of the question, however, we are convinced a rate of return of 6½ per cent on the present fair value of the company's property devoted to public service will enable it to render satisfactory service to the consumers and provide reasonable protection to its investors.

## XVI. Conclusion

On the basis of the fair value of \$9,000,000, as established herein for the used and useful property as of December 31, 1940, and applying the 6½ per cent rate as also determined by us, it appears that the company's allowable return of \$585,000 is slightly larger than the actual return of \$535,000 which was earned in the year ended December 31, 1940.

We have been cognizant of the rapidly fluctuating economic situation during the past two years and have been reluctant to express our opinion or adopt a finding in this case without the advantage of some actual experience under war conditions. For that reason, we have held the matter under consideration beyond the time normally required for that purpose in order to determine whether this case should be reopened and new hearings had. We are now satisfied that the record as it is before us contains adequate information for a reasonable forecast of the future, and that we can base our findings upon it without injustice to either the public or the company. It seems pertinent, how-



# MISSOURI PUBLIC SERVICE COMMISSION

ever, to set out certain information from the sworn annual reports filed by the company with the Commission for the years, 1941 and 1942, which sustain this conclusion.

In these reports we find that the growth of the property since 1940 is indicated by the following:

Year	Additions	Retirements	Net Additions	Customer's Contribution	Net
1941 .....	\$638,456	\$84,618	\$553,838	\$52,328	\$501,510
1942 .....	518,008	82,091	435,917	30,446	405,471
Total .....	\$1,156,464	\$166,709	\$989,755	\$82,774	\$906,981

We note also that, while operating expenses have increased under war conditions, revenues have increased to a greater extent so that the net return has shown an upward trend. The figures are:

	1941	1942
Operating revenues ...	\$2,455,816	\$2,748,770
Operating expenses ...	1,949,734	2,164,605
Net per books ....	\$506,082	\$584,165

Modifying the net available for return as shown by the books to bring them into alignment with our findings herein with respect to revenues and expenses, and further correcting to provide for proper depreciation as set out above, results in the following adjusted amounts available for return:

1941 .....	\$501,000
1942 .....	\$599,000

In general it may be said that the year, 1942, saw this company reach an all-time high in number of customers, amount of gas sold, and revenues from sale of gas. While these new

records are partially due to war activities, an important feature is the marked increase in population which has taken place during the past few years in the territory served by the company. To whatever extent this latter factor has contributed to the increase in business, it is expected that

the increase will be of a permanent nature.

It appears, however, that this growth in business has required sufficient additional investment in property to result in a rate of return which is approximately the same as that which obtained in 1940. The experience of the past two years, therefore, has not altered the basic facts to an extent justifying new hearings, and we feel that we are on firm ground in determining this case upon the record before us.

The Commission will continue its observations of this utility in order to keep advised of the effect of the war impact on operating results.

The Commission is of the opinion and finds, that the actual earnings of the St. Louis County Gas Company are so nearly in conformity with the allowable earnings as to make a rate modification unfeasible, and that no change in rate schedules should be made at this time.

MONTANA PUBLIC SERVICE COMMISSION

Town of Whitehall  
v.  
Meredith Edna Roe et al.

[Report and Order No. 1808, Docket No. 3410.]

*Municipalities, § 3 — Powers — Legislative authority.*

1. A city or town has only such authority as is conferred upon it by express legislative declaration or necessary implication, and where there is a fair and reasonable doubt as to the existence of a legal power, it must be resolved against the municipality and the power denied, p. 125.

*Municipal plants, § 18 — Powers of municipality — Extraterritorial extensions.*

2. A town had no authority in 1918 to extend service to persons outside of the corporate limits, in view of paragraph 79 of § 3259, Revised Codes of Montana, 1907, authorizing municipalities to secure a supply of water only "for the use of a city or town or its inhabitants," p. 125.

*Municipal plants, § 18 — Powers of municipality — Extraterritorial extensions.*

3. Authorization, by statutory amendment, for extensions of water service by a municipality to any factory or other industry located outside of corporate limits, provided delivery of water for the use of such industry is made within or at the boundary line of corporate limits, does not permit a town to furnish service through its own mains to dwellings outside of corporate limits, p. 127.

*Municipal plants, § 14 — Powers of Commission.*

4. The Commission has no authority or jurisdiction to compel a municipality to do something which it cannot legally do, nor has it authority to prevent a municipality from discontinuing a service which it is not authorized by law to perform and has no duty to perform, p. 127.

*Municipal plants, § 11 — Jurisdiction of Commission — Unlawful extraterritorial service — Abandonment — Operation at a loss.*

5. The Commission has no jurisdiction or power either to compel a town to furnish water service to dwellings beyond corporate limits or to prevent it from discontinuing such service when the service is unauthorized by statute and operation is and will be conducted at a loss to the town and its taxpayers, p. 127.

*Municipal plants, § 11 — Constitutional limitations — Operation at a loss.*

6. Commission action to compel a town to operate a water extension beyond corporate limits at a loss would deprive the town and its taxpayers of property without due process of law, contrary to the Fourteenth Amendment to

## MONTANA PUBLIC SERVICE COMMISSION

the Constitution of the United States and § 27, Art. 3, of the Montana Constitution, p. 127.

[June 11, 1943.]

**C**OMPLAINT by municipality against water consumers beyond corporate limits for the purpose of obtaining order directing municipality to cease operation of extension; jurisdiction of Commission disclaimed.

**APPEARANCES:** Philip C. Duncan, Attorney, Whitehall, for the town of Whitehall; Emma M. Arnold, Whitehall, for herself and Hugh T. Naughton; Harry C. Alley, Attorney, Whitehall, for all the other above-named defendants; Enor K. Matson, Counsel, for the Board.

By the COMMISSION: The town of Whitehall filed a complaint with the Public Service Commission of Montana alleging: That it is a municipal corporation incorporated under the laws of this state and has never had a population in excess of 900 persons; that it operates a municipal water system for the inhabitants of the town; that in 1918 it extended the water system to what is known and described as the "Amalgamated Sugar Company Suburban Tracts," known locally and hereinafter referred to as the "Sugar Beet Row," located outside of the corporate limits of the town; that the length of this extension outside of the corporate limits is about 2,200 feet; that such extension does not now and never has supplied water to any factory or other industry but solely for fifteen private dwellings originally, only twelve of which are now supplied with such water; that the defendants herein are the owners

or tenants of the owners of such dwellings or have some interest in the same; and that the town has never delivered water to said extension within or at the boundary line of the corporate limits of the town, but has delivered the water at each individual dwelling house and has borne the chief operating expenses connected with said extension.

The town alleges further that this extension was constructed of inferior, short-lived material which is worn out and in bad, leaking condition beyond repair and must be replaced; that this will cost about \$4,700; that all of the water of the town is obtained by means of electric pumping at considerable cost; that the leaks in the extension increase the electric power bills and cause needless wear and tear on the pumping equipment, resulting in excess cost of supplying and maintaining said extension over and above all revenue obtained therefrom; that the cost of operation, maintenance, and interest on the investment of the extension system, if replaced, will amount to nearly \$400 per year while the average gross receipts from the extension will not exceed \$275 per year; that the fifteen private dwellings in said Sugar Beet Row are over twenty years old; that no new dwellings have been con-

## WHITEHALL v. ROE

structed or are likely to be constructed in the future; that three of the fifteen dwellings have ceased to purchase water from the town and have installed private water supply systems; that it is possible that a part or all of the other twelve will likewise discontinue using water from the extension; and that in addition to supplying water, the town furnishes fire protection to these dwellings by means of five fire hydrants, without charge, at a continuing loss and expense to the town and its taxpayers.

The town asserts that it was never authorized by law to extend its water system beyond its corporate limits for the purpose and in the manner described, and that in continuing the operation and maintenance of said extension it is violating § 5040.1, Revised Codes of Montana, 1935; that the continuance of such extension will be imposing a burden of operating a utility at a loss upon its taxpayers; and that if it replaces said extension, it will be in violation of law and said statute and that the operation thereof will be at a loss and a burden upon the taxpayers.

The town prays that this Commission make an order directing it to cease the operation and continuance of said extension of its water system without its corporate limits.

These allegations were not denied by answer. At the hearing held by the Commission, the allegations of the complaint were substantially supported by the evidence.

In 1918 the construction near Whitehall of a sugar beet factory requiring water was contemplated. It was agreed with the factory promot-

ers that the latter would construct an extension of materials equal in quality to that of the town's water main. The factory was never completed but instead the fifteen houses were constructed and were served with the water extension. The water was never used for sugar beet or other industrial purposes. These houses have their own sewer system.

The testimony disclosed that, whereas the water system of the town was constructed of cast-iron pipe, the extension was constructed of steel casing with burlap and tar covering, with an anticipated life of about ten years. As a consequence, whereas the town system has required little or no repairing, the extension system has required constant repairing, running to an average of about once a month, at considerable expense. At the present time, there appears to be more or less constant leakage, resulting in about ten pounds decreased pressure and in increased pumping.

There appears to be no dispute as to the facts, although there was some difference of opinion as to the cost of construction of a new extension, and as to whether or not materials could be obtained now for wells in order to serve the remaining twelve dwellings.

[1, 2] On these admitted material facts, the principal question before this Commission is one of law. Was the extension in 1918 of the water system about 2,200 feet beyond the corporate limits to the dwellings in Sugar Beet Row and the operation of the same and the delivery of water to these residences authorized by law; and, if not, does this Commission have

## MONTANA PUBLIC SERVICE COMMISSION

authority to direct the town to continue the operation thereof?

It is a well-recognized rule of law followed by the Montana supreme court that a city or town has only such authority as is conferred upon it by express legislative declaration or necessary implication, and where there is a fair and reasonable doubt as to the existence of a legal power, it must be resolved against the municipality and the power denied. *Davenport v. Kleinschmidt* (1887) 6 Mont 502, 527, 13 Pac 249; *Helena v. Kent* (1905) 32 Mont 279, 283, 80 Pac 258; *State ex rel. Quintin v. Edwards* (1910) 40 Mont 287, 303, 106 Pac 695; *Helena Light & R. Co. v. Helena* (1913) 47 Mont 18, 31, 130 Pac 446; *Shapard v. Missoula* (1914) 49 Mont 269, 278, 141 Pac 544; *Sharkey v. Butte* (1916) 52 Mont 16, 19, 155 Pac 266; *State ex rel. Billings v. Billings Gas Co.* 55 Mont 102, 108, PUR 1918F 768, 173 Pac 799.

In 1918 the legislative authority to furnish water granted to a municipality in Montana was found in Par. 79 of § 3259, Revised Codes of Montana, 1907, which reads as follows: "The city or town council has power: . . . 79. To adopt, enter into, and carry out means for securing a supply of water for the use of a city or town or its inhabitants."

It is clear that the authority of the town of Whitehall was limited in 1918, at the time the extension was made, to supplying water to its inhabitants and that no power was granted to the furnishing of water to persons outside of the corporate limits. Attorney General Poindexter in 1916 in an opinion given to this Com-

mission on a similar question (6 Op Atty Gen 457) held that neither the city council nor the Public Service Commission had power to order the connection of water pipes to a water main constructed by a special improvement district to give service to persons outside of the district, for the reason that such power was not granted by statute and the inhabitants of the district were entitled to have the full benefit of the investment.

Most authorities hold that a municipal corporation authorized to own and operate a public utility has no power, in the absence of statutory authority, to furnish water beyond its corporate limits. The cases are collected in the annotations to *Hyre v. Brown* (1926) 102 W Va 505, 135 SE 656, 49 ALR 1230, 1239, and *Taylor v. Dimmitt* (1935) 336 Mo 330, 78 SW(2d) 841, 98 ALR 995, 1001. This Commission in *Re Laurel*, PUR1921D, 817, recognized this view. The Commission said at pp. 821-823: "We do not question the proposition that the city cannot be compelled to burden its public water utility by serving those persons who about the city limits but are beyond the reach of the municipality's taxing powers. . . . In this jurisdiction no other view is possible. 'A city of this state is a creature of statute. Independently of legislation it cannot exist—cannot exercise any functions whatever. In the absence of constitutional limitations, the legislature would be free to prescribe for a city such powers and privileges as it deemed best.' *McClintock v. Great Falls* (1917) 53 Mont 221, 163 Pac 99. And see the Montana cases col-



# WHITEHALL v. ROE

lected in 13 MUR at pages 296 and 297. . . . but we think it sufficiently appears from the foregoing that the municipal corporation is expressly limited to serving 'the city or town,' and consequently that persons beyond the boundaries thereof have no lawful right to service. . . . The enumeration of these specific exceptions, however, strengthens the deduction that the legislature has not endowed cities with the right to furnish water beyond their limits, or it would have mentioned the right among the extrajurisdictional powers expressly given cities. . . . The reason of course, is clear. To execute any power of city government presupposes the power to levy and collect taxes from its inhabitants and property within its jurisdiction to defray the expenses incurred in its execution. Since the city of Laurel may tax only the property within its limits, if it were allowed to extend its water service beyond those limits as a municipal undertaking, the intracity taxpayer would be carrying the burden not only for the city but for the outsider. *Dyer v. Newport* (1906) 123 Ky 203, 94 SW 25. We have gone into this matter at some length because we think it should be clear that the city's water plant, must, by the laws of our state and on sound principle, be held to be dedicated to city service only, and no decision of the Commission's should lend color to a contrary notion, or encourage acts ultra vires."

[3, 4] The Montana statute was amended by Chap. 71, Laws 1925, and Chap. 134, Laws 1929, so that the present law, § 5040.1, Revised Codes of Montana, 1935, reads:

"The city or town council of any city or town within the state of Montana, that owns and operates a municipal water system, to furnish water to the inhabitants of such city or town, as a public utility, shall, in addition to all others powers, have power to furnish water from such water system, *to any factory, or other industry, located within the corporate limits of such city or town, or to any factory or other industry located within 3 miles of the corporate limits of such city or town, at rates established for like use or service to the inhabitants or industries located inside the corporate limits of such city or town, provided that delivery of water by any such city or town to or for the use of any factory or other industry located outside the corporate limits of such city or town shall be made within, or at the boundary line of the corporate limits of such city or town except as hereinafter provided.*"

Since the dwellings in Sugar Beet Row are not a "factory or other industry," they do not come within the exception; and there is no legislative authority permitting the town of Whitehall to supply water to them. This Commission has no authority or jurisdiction to compel a municipality to do something which it cannot legally do. This Commission has no power or authority to prevent a municipality from discontinuing a service which it is not authorized by law to perform and has no duty to perform.

[5, 6] In *Re Billings* (1938) 23 PUR(NS) 442, 449, this Commission said:

"It should, however, be distinctly understood that a municipality cannot

## MONTANA PUBLIC SERVICE COMMISSION

be compelled to furnish water to those residing outside its corporate limits, since to hold otherwise would be to require the taxpayer within the municipality to bear an unequal burden in paying for supplying water outside the municipality to those who are beyond the taxing jurisdiction of the municipality."

Moreover, the evidence shows that the operation of the present extension to Sugar Beet Row is a continuing loss to the town and its taxpayers, and that the operation of a new extension would also be operated at a loss. We are not here confronted with a situation where a municipality wishes to dispose of surplus water at a profit to the city and its inhabitants and taxpayers. On the contrary, the water furnished to Sugar Beet Row is pumped by electric power at a financial loss, as well as a loss in water pressure; and the town wishes to discontinue the practice. Even though the town possessed the power to extend its water supply service beyond its corporate limits, it could not be compelled to do so at a loss. The Arizona Corporation Commission in *Re Phoenix*, PUR1929D 497, held that neither the governing body of a municipal corporation, nor the Commission, as the agency of the state, possessed the power and authority to impose upon the taxpayers of the municipal cor-

poration the expense of operating a utility (streetcar line) in the suburban area at a financial loss.

We think that if this Commission should undertake to compel the town of Whitehall to operate its extension at a loss it would be depriving the town and its taxpayers of property without due process of law and contrary to the Fourteenth Amendment to the Constitution of the United States and § 27, Art. 3, of the Montana Constitution.

The allegations of the complaint not being denied and the evidence supporting it being undisputed, the Commission now finds that all of the allegations of the complaint filed by the town of Whitehall are true and are supported by the evidence. On these facts the Commission concludes that under the statute defining its powers and duties the town of Whitehall cannot be compelled to furnish water service to residents outside its corporate limits.

This being true this Commission concludes further that it has no jurisdiction or power to either compel the town to furnish water service to them or to prevent it from discontinuing such service and, therefore, since the town desires to discontinue same, no order of this Commission is necessary.

---

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*Selected information about products, supplies and services offered by manufacturers. Also announcements of new literature and changes in personnel.*



## Equipment Notes

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The A. C. Horn Company of Long Island City, N. Y., one of America's largest manufacturers of materials for building maintenance and construction, announces the development of Waterfoil, a new, decorative water resistant treatment for exterior masonry surfaces. One coat of Waterfoil has the equivalent thickness of three or four coats of average paint, the manufacturer reports. It is offered in five basic colors, providing a range of decorative effects while helping to preserve the structural integrity of the surface.

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**Catalogs & Bulletins****Flori Pipe Company  
Issues New Catalog**

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A copy of this book may be obtained without charge, from department P-14 of the Flori Pipe Company, St. Louis, Missouri.

**Automatic Electric Issues  
Timely Paystation Catalog**

To provide telephone companies with up-to-date information on developments in paystation service and apparatus, Automatic Electric Company has issued a new catalog, "Autelco-Equipped Gray Paystations."

Pointing out that each paystation normally carries as much traffic as several ordinary substations, but with much smaller use of critical materials, the catalog suggests many locations for paystations in the average community, and stresses the importance of paystations in meeting the current telephone needs of military establishments, war plant areas, new housing projects, etc.

The catalog illustrates and describes not only the wide range of paystation apparatus already generally familiar to operating companies, but also the new "60" series of paystations recently developed jointly by Automatic Electric and Gray engineers. These new paystations contain complete telephone transmission apparatus in addition to the paystation mechanism, and therefore require no associated equipment units, except for a ringer or other signal when desired.

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 (Continued on page 42)

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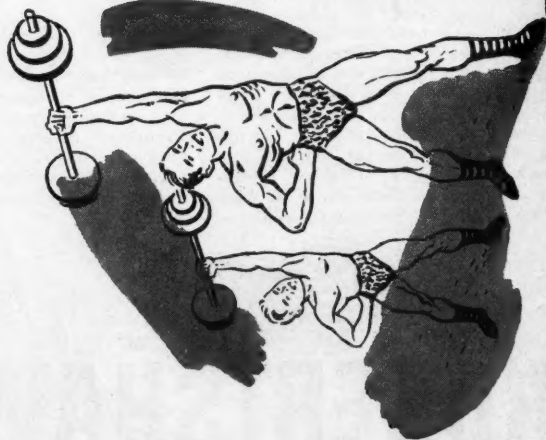
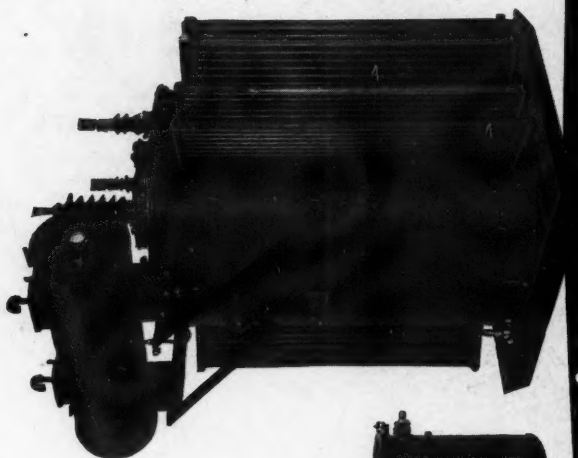
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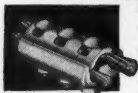
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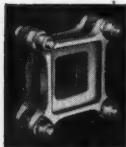
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Jack-Knife connectors for simple and easy disconnection of motor leads, etc. Spring action—self locking.



Splicing Sleeves, Figure 8 and Oval, seamless tubing—also split tinned sleeves. High conductivity copper; close dimensions.

**Preferred by the largest utilities and electrical manufacturers—because they have found that "Penn-Union" on a fitting is their best guarantee of Dependability. Write for Catalog.**

**PENN-UNION ELECTRIC CORPORATION**  
ERIE, PA. Sold by Leading Jobbers

# PENN-UNION

CONDUCTOR FITTINGS

Mention the **FORTNIGHTLY**—It identifies your inquiry

AUG. 19, 1943

### Manufacturers' Notes (Cont'd)

are now being considered by the combined Postwar Planning Committees of the American Gas Association and the CP Gas Range Division of the Association of Gas Appliances and Equipment Manufacturers.

### Army-Navy "E" to Westinghouse Meter Division

The Meter Division of the Westinghouse Electric and Manufacturing Company was recently presented the Army-Navy "E" pennant for "outstanding achievement in producing war equipment."

The award to the Division, which has produced tremendous quantities of vital electrical instruments for the Air Corps, the Signal Corps and the Navy, is the 11th Army-Navy "E" given to the Westinghouse company.

### Silex Company Establishes Eastern, Western Division Offices

The Silex Company, Hartford, Conn., manufacturers of glass coffee makers, has established an eastern division sales office at 300 Fourth Avenue, New York city. William S. Cary, for nine years New York district manager, has been named assistant to the vice president in charge of this division.

A western division sales office at 14-109 Merchandise Mart Building, Chicago, Ill., has also been established with Walter S. Wormser, assistant to the vice president, in charge.

### G-E Appointment

The appointment of Ralph J. Cordiner as assistant to the president of the General Electric Company has been announced by Gerard Swope, president.

Mr. Cordiner, who resigned in June as vice chairman of the War Production Board, was formerly president of Schick, Inc. of Stamford, Conn. prior to which he was manager of the appliance and merchandise department of the General Electric Company.

Mr. Cordiner's office will be at 570 Lexington Avenue, N. Y.

### Philadelphia Electric Awarded First Prize for Advertising

Philadelphia Electric Company has just been awarded first prize among all the public utilities companies in North America for public relations advertising.

The selection was made by a special committee of the Public Utilities Advertising Association who reviewed the campaigns appearing over the signatures of public utilities companies in all parts of the United States and Canada.

The winning campaign features former employees of the Philadelphia Electric Company, both men and women, who are now in the Armed Services. The major illustration dramatizes the service in which each particular employee is serving whereas the employee's photograph and biography appear in the another part of the ad.

Officials of the company report that this

ON WAR EMERGENCY PIPELINE CONSTRUCTION—  
WHERE SPEED and UNFAILING PERFORMANCE  
ARE DEMANDED "CLEVELANDS"  
ARE INDICATED—



Compact—fast—flexible—and mobile "Clevelands" are easy to operate—rugged—and amply powered for the toughest tasks, they are delivering maximum trench footage day in and day out, on ditching jobs in all types of soil and reducing to a minimum service interruptions on a multitude of war and civilian emergency projects.

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20100 ST. CLAIR AVE.	"Pioneer of the Small Trencher"	CLEVELAND, OHIO
<b>"CLEVELANDS" Save More... Because they Do More</b>		

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**Manufacturers' Notes (Cont'd)**

campaign has accomplished a great deal in impressing upon the public of the Philadelphia area the fact that the utility company actually is made up of average individuals who are sharing with their neighbors the hardships of wartime. It is also reported that the advertising has had a marked effect upon the morale of company employees.

This prize winning campaign, which is handled by the Philadelphia office of the Al Paul Lefton Company, will continue throughout the year.

**Meter Company Executives Serve Country**

Four of the top executives of the Pittsburgh Equitable Meter Company, Pittsburgh, Pa., are now active participants in various branches of governmental service.

Colonel Willard F. Rockwell, president, has been serving as director of production for U. S. Maritime Commission in Washington, D. C., since April 7, 1942. In this capacity, he is in charge of the production requirements for cargo vessels ordered by the commission and must see that schedules are maintained. He is a member of the Executive Committee of the Army and Navy Munitions Board, the Material Requirements Committee and Scheduling Committee of the W.P.B., as well as serving on numerous other committees.

Allen D. MacLean, vice president and chief

engineer, is also in Washington with the Maritime Commission, serving as assistant director of production.

Private W. F. Rockwell, Jr., vice president and comptroller, is in training at the Army Ordnance Officers' School, Aberdeen Proving Grounds, Aberdeen, Maryland.

Captain A. E. Higgins, vice president and sales manager, was recently commissioned major and assigned to active duty with the U. S. Air Corps.

**H. M. Harper Company Opens Philadelphia Office**

The H. M. Harper Company, manufacturers of everlasting fastenings, announces the opening of a branch office at 1617 Pennsylvania Boulevard, Philadelphia, Pa. Mr. George W. Ellis and Mr. Henry F. Mullaney are in charge.

Mr. Ellis has been a Harper representative for approximately ten years. He is well known in the trade and is thoroughly familiar with the services which Harper is in a position to render. Mr. Mullaney joined the Harper organization May 1, 1943, and has recently completed an intensive training at the main Harper plant in Chicago. Previously Mr. Mullaney was in the employ of Cramp Shipbuilding Company, Philadelphia, and the Berger division of Republic Steel Company.

**D. D. Foster Appointed Sales Head Pittsburgh Equitable Meter Company**

Announcement has been made by Major A. E. Higgins, vice president of the Pittsburgh Equitable Meter Company, who is now in active service in the Army Air Corps, of the appointment of Donald D. Foster as assistant sales manager.

Mr. Foster formerly was district manager for the Pittsburgh territory. In his new capacity he will be acting head of the sales divisions for both the parent concern and subsidiary, the Merco Nordstrom Valve Company.

**Two Westinghouse Vice Presidents Elected**

Election of two district managers as vice presidents of the Westinghouse Electric and Mfg. Co. has been announced by A. W. Robertson, chairman of the company. They are Fred T. Whiting, manager of the company's northwestern district, with headquarters in Chicago, and Charles A. Dostal, Pacific Coast district manager, with headquarters in San Francisco. Duties and headquarters of both men are unchanged.

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**JOHN DAVEY**

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The measuring stick on tree trimming is the all-around satisfactory service you get for the dollars you spend—the total cost against the total results. On that basis Davey service is tops.

*Always use dependable Davey Service*

DAVEY TREE EXPERT CO.

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197 Sidney St., Cambridge, Mass.

**"MASTER\*LIGHT\*MAKERS"**

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AUG. 19, 1943



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*twice as much  
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# SPEED FEED

## EGRY BUSINESS SYSTEMS COMPRISE:

**EGRY SPEED-FEED.** May be attached to any standard make typewriter in one minute, and with Egly Continuous Forms, doubles operator output. One machine does the work of two.

**EGRY TRU-PAK** Register speeds the writing of all handwritten records. Assures complete control over every business transaction.

**EGRY ALLSET** Forms, the modern single set forms for speed writing all business records. Individually bound sets, interleaved with one-time carbons. ALLSETS are ready for immediate use for typed or handwritten forms.

**EGRY CONTINUOUS** Forms increase the output of operators by 50% and more because they eliminate time-consuming operations. Furnished with or without interleaved one-time carbons.

**AND** in addition to the above, there are others you'll want to know more about.

The shortage of typewriters and competent operators will be compensated for if you use Egly Business Systems. In thousands of instances Egly Speed-Feeds and Egly Continuous Forms enable operators to produce twice as much work as they did before with the typewriter alone and ordinary loose forms and carbons.

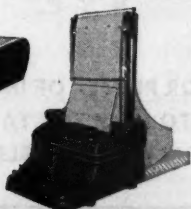
Other Egly Business Systems for handwritten records are equally important. Investigate today. You'll be surprised at the amount of time you will save when you use Egly Business Systems. More detailed information will be sent on request, or free demonstrations may be arranged at your convenience. There's no cost or obligation, of course. Address Department F-819.

*Sales agencies in principal cities.*

**THE EGRY REGISTER COMPANY • Dayton, Ohio**

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EGRY TRU-PAK



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*"Do it in Writing"*

EGRY SPEED-FEED



## BIG PUSH CALLS FOR STEEL

# Scrap faster . . . Win sooner!

With Axis morale sinking faster under every bombing . . . with the fortress of Europe cracking ahead of schedule . . . we're setting up the Axis for the final hay-maker!

That means an advance behind a curtain of shrieking steel . . . continuous barrages blasting our enemies round-the-clock until they say Uncle!

### **The Time Is Now**

So our war planners have flashed an urgent message *to keep the steel coming*. And remember, half of the huge production will be scrap. Will we make it? Of course we will!

We'll make it because every ton, pound and ounce of that steel scrap now so urgently needed will help to shorten the war by just that many days, hours and minutes!

We'll make it because that means saving the lives of so many dear to us who are out there somewhere today, getting set for the big push.

**If you have done a successful salvage job at your plant, send details and pictures to this magazine.**

### **Be Wise—Organize!**

So *organize* your scrap drive . . . make it a continuous operation . . . in charge of a square-jawed executive with authority to keep it rolling!

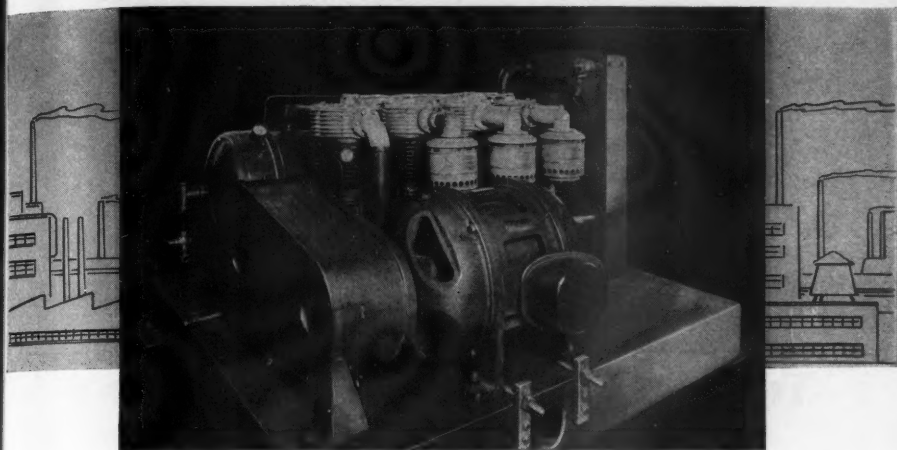
And segregate your steel types, wherever possible, according to alloys and grades. It will save time all along the line . . . get your steel into the fight faster!

No matter how many times you have looked . . . look again . . . and *keep right on looking!* For only then will the furnaces be able to push capacity to the limit . . .

### **BUSINESS PRESS INDUSTRIAL SCRAP COMMITTEE**

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N. Y. C.

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SCRAP TO HELP YOU TACKLE THE  
SALVAGE PROBLEM.**



*For Top Air Output With a Real Load on the Line Use*

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If you were to listen to what shop maintenance men say, time after time you would hear statements like this:

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That's why so many factories, mills and shops are switching to DAVEY Air-Cooled Industrial Compressors as

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DAVEY Stationary Compressors fit almost every industrial need, from 40 to 125 lbs. per square inch pressure. Write for booklet "Save With DAVEY Compressors."

### Some distinguished users of DAVEY Compressor equipment

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**DAVEY**  
*Compressor Co.*  
KENT, OHIO

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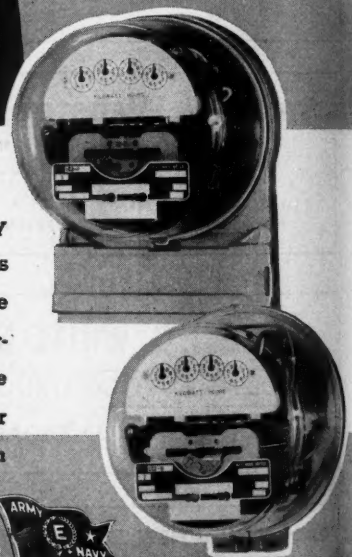
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THE cooperation of the electric utility industry with the watthour meter manufacturers has kept the design and development of the modern watthour meter well ahead of metering requirements. Thanks to this cooperative spirit, watthour meters will again play their important part in system modernization when normal times are once more restored.



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CARRIES CURRENT  
FOR LIGHT AND  
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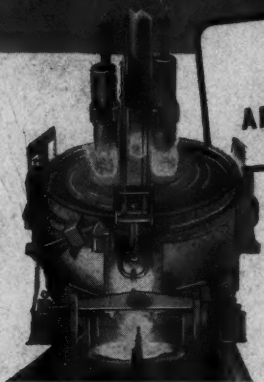
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